FINANCING
CANADIAN GOVERNMENT

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By

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PREFACE

CANADIANS seem fairly well informed about the United States, but Americans on the whole are rather ignorant of what goes on north of the Great Lakes and the forty-ninth parallel. Canadians have long been aware that they have much in common with their neighbors to the south both in heritage and development; and at the same time they have appreciated that there are marked differences in population, economic resources, and political institutions between the Dominion and the United States. Americans, however, have been slow to realize that there is to the north of them a vast country which forms the largest and oldest federation in the British Commonwealth of Nations, and that what it does in world affairs, in trade and commerce, and even in its domestic sphere is likely to affect the United States very materially in one way or another. The events of World War II, particularly Canada's declaration of hostilities against Germany long before the United States became involved in the war, served to make this fact quite clear.

Perhaps as a result of the war as much as anything else, many Americans are showing an increased desire to learn more about Canadian institutions and customs. They are especially impressed by the little they know of the way Canada marshaled its domestic economy and its government finance to take part in World War II to a degree which was regarded as being much beyond its apparent capacity. The ability of the Canadian government to meet the stresses and strains not only of the war but also of the preceding world-wide depression has for some time attracted the attention of American economists and investigators. Several interesting studies have appeared from time to time on various phases of Canadian government and economy, some of them written by former Canadians now residents of the United States. But there is, as yet, no comprehensive study of Canada's system of government finance, showing its development and outlining its essential characteristics as compared with the American system of government finance. To put it another way, no broad exploration has been made of the workings of parliamentary government finance of the British pattern under American environment and influences.

The following chapters are an attempt to fill this gap for American readers, and perhaps to make some observations and comparisons of interest to Canadian readers. Since Canadian authors have recently

published two or three excellent treatises on the government of Canada, I have reduced to a minimum my discussion of the general structure and workings of the Dominion government. Only the barest outline has been included, and that only for American readers who do not find it convenient to consult the Canadian treatises. My efforts have been directed mainly to setting forth the organization and usage involved in the financing of Canada's government. Within this sphere, I have assumed that federal-provincial fiscal relationships are at the very core of government finance in Canada, as indeed they are in other far-flung federations. During recent years it has become increasingly apparent that whatever action is taken in the federal-provincial field vitally affects the finances of all three levels of government—national, provincial, and municipal. Another reason for emphasizing this aspect is that the United States seems to be stumbling along a course which in prospect is headed for many of the complex problems that have already confronted Canada.

The materials which have gone into the writing of this book have been gathered over a rather long period. I first got the idea that such a book might be useful to Americans when my wife and I were vacationing in Canada during the early thirties. I prepared a first draft of this book just before the outbreak of World War II. Although mimeographed copies of this draft were submitted for reading and comments to some of my Canadian and American friends, wartime demands intervened and the manuscript was not put into shape for publication. After the war was over I found that so much had happened in the field of government finance in Canada as to require a complete rewriting of the manuscript, which was done to put it in its present form.

In writing this book I have had the valuable assistance and wholehearted cooperation of a great many Canadians,—Dominion, provincial, and municipal officials, as well as several persons in private capacities. While the list of those who have aided me materially is far too long to enumerate, I do want to mention a few persons without whose help I could not have produced this book. Dr. W. C. Clark, Deputy Minister of Finance for the Dominion, has permitted me to draw freely upon his great fund of experience in financial matters accumulated over the past seventeen years in that position. Mr. B. G. McIntyre, Comptroller of the Treasury, has guided me through the intricacies of the Dominion's expenditure control system. Mr. W. C. Ronson, Master of the Royal Canadian Mint and formerly Assistant Deputy Minister of Finance for many years, has always responded cheerfully to all my many requests for information and documents. Mr. Watson Sellar, Auditor General of Canada, has let me share his broad knowledge of all phases of government finance. Professor Alexander Brady of the University of Toronto

has saved me from several slips with respect to the government and economics of Canada. Dr. Horace L. Brittain, former director of the Toronto Bureau of Municipal Research, read an early draft of the chapter on municipal finance and passed along many helpful criticisms. I should perhaps add that the persons just mentioned are in no way responsible for any errors either in fact or judgment which may appear in this book, or for any of my conclusions.

I am also indebted to my associates at the Institute of Public Administration, particularly Dr. Luther Gulick, Mr. Philip H. Cornick, and Miss Audrey M. Davies, who have read all or parts of the manuscript and have offered many useful suggestions. Lastly, I must thank my wife, Beatrice S. Buck, for having participated at various points in what turned out to be the rather long process of getting this book written and in print.

A. E. Buck.

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Chapter I

FEDERAL ASPECTS OF CANADIAN FINANCE

BOTH British and American experience entered into shaping the governmental institutions of Canada. The members of the Quebec Conference of 1864 were more or less familiar with the proceedings of the American Constitutional Convention held at Philadelphia in 1787, and with subsequent constitutional developments. Some of the members, particularly Sir John A. Macdonald, were close students of the writings of Hamilton and Madison. Because of this familiarity on the part of the members, the British North America Act—the final result of the Quebec Conference—was a blend of British and American governmental ideas. The practice of responsible parliamentary government was introduced from Britain and the scheme of federal distribution of governmental powers was copied from the United States.[1] Added to these two fundamentals were certain Canadian ideas, prompted by local conditions and the exigencies of the moment.

Between 1860 and 1864 the British North American colonies were compelled by sheer force of circumstances to consider federation. From a governmental standpoint, the union of Canada West (formerly Upper Canada and later Ontario) and Canada East (Lower Canada or Quebec) had been largely a failure. The government, conducted by double-headed cabinets drawn from Canada East and Canada West, was quite unstable and often politically deadlocked. Public improvements were

[1] An interesting concept, namely, that the political theory and the political machinery of the British North America Act were very largely derived from the Old Colonial System of the second British Empire, with its sovereign Imperial Parliament and its dependent colonial legislatures, is presented by Donald Grant Creighton in his *Dominion of the North* (1944), pp. 306–7. Alexander Brady also points out that it was "the union of Scotland and England wherein Macdonald found the germinal idea of federalism in the recognition of diversity and unity." Brady's *Democracy in the Dominions* (1947), p. 39.

held up for lack of governmental action, and business was frequently interrupted. Canada West then paid practically three-fourths of the governmental costs of the united province, which its political leaders claimed was unfair.

Then there was the problem of the western prairie country, which was being rapidly settled at that time. Canada West contended that a vigorous governmental policy was needed to deal with this extension of the frontier, particularly with the Indian and half-breed population, and with the disintegrating Hudson's Bay Company. French Canada was disposed to block all advances in this direction.

A serious situation also existed by reason of the virtual isolation of the Maritime provinces from Canada. A railroad between the two sections was greatly needed to stimulate commercial intercourse, to help break down customs restrictions, and even to aid in establishing common standards of currency, banking, and weights and measures.

An immediate stimulus to Canadian federation came from the American Civil War; indeed, it is doubtful if there would have been a federation at all if it had not been for this war. Relations between the United States and Great Britain were already strained owing to the latter's policy of openly favoring the South and permitting Confederate blockade runners to use Halifax and St. John as bases of operation. If Great Britain became directly involved in this conflict, Canadians realized that they would be the immediate sufferers. Federation, therefore, offered some prospect of home defense and perhaps the ability to hold on to the vast Canadian area that stretched westward to the Pacific, which the Americans had been longingly looking at for some time.

Steps toward Federation for Canada

The first steps toward federation were actually taken by the Maritime provinces. For several years there had been a growing sentiment for a maritime union. When Charles Tupper succeeded to the premiership of Nova Scotia through the defeat of Joseph Howe in 1863, he called a conference of delegates to meet at Charlottetown, Prince Edward Island, to consider plans for such a union. This conference met on September 1, 1864, and was immediately joined by a delegation of eight members from United Canada, among them being Macdonald, Cartier, Galt, Brown, and McGee. They outlined a plan of federation and argued its advantages for two days. The conference then dropped the idea of a maritime union and concentrated on working out some of the main features of the federation plan. A tentative agreement was reached that the union should be federal, that representation in the lower house of the federal parliament should be based on population, and that each of the three regions, Canada West, Canada East, and the Maritimes, should be

equally represented in the upper house. The conference then adjourned with the understanding that a meeting was to be arranged at Quebec during the following month.

On October 10 the Quebec Conference met, worked behind closed doors, and adjourned on October 28, scarcely three weeks later. It consisted of thirty-three delegates, twelve from United Canada (the full coalition cabinet), five from Nova Scotia, seven each from New Brunswick and Prince Edward Island, and two from Newfoundland. It was agreed to give each province one vote, except United Canada, which was given two. Macdonald, Galt, Brown, Cartier, McGee, Tupper of Nova Scotia, and Tilley of New Brunswick were "the Big Seven" whose efforts and leadership made the federation possible. Taché, the venerable French-Canadian premier, was chairman of the convention. Hewitt Bernard acted as secretary, keeping careful notes of the proceedings of the closed meetings, which were published many years later.

The results of the Quebec Conference were incorporated in seventy-two resolutions which later became the basis of the British North America Act of 1867. The resolutions proposed a federal union of all British North American provinces. In setting up the federal and provincial governments, the powers and duties of their respective legislatures were enumerated, and all undefined or residuary authority was left to the federal government. This arrangement was deliberately proposed in order to forestall any conflict between the federal government and the provinces, such as the Civil War in the United States then dragging on into its fourth year. The question of representation in the federal legislature was met, as it had been in the United States, by basing membership in the lower house on population and in the upper house on equality of sections. But instead of the sections being individual states, they were to be Canada West, Canada East, and the three Maritime provinces as a third section. Newfoundland was to receive additional members if it joined the federation. The discussion of the distribution of members in the upper house occupied the conference for three days and threatened to break up the proceedings. Its satisfactory solution was the outstanding compromise of the convention. The financial terms were equally difficult to agree upon; they almost brought the conference to an abrupt ending. If the central government was to receive practically all sources of provincial revenue, except direct taxation for local purposes, the Maritime provinces would immediately be in great difficulty, since they had no municipal system and no direct taxation and were accustomed to meet local needs from the provincial treasuries. After extended discussions a compromise was finally reached. It was agreed that in exchange for the customs duties which the provinces would surrender, the central government would grant annually to each province a sum equal to eighty

cents per capita of population, as determined by the census of 1861, and that these federal subsidies would be paid six months in advance. In addition, the debts of the provinces, up to a specified amount, would be assumed by the central government. The conference also agreed that the central government would assume responsibility for prompt construction of an intercolonial railroad, as a further inducement to the Maritime provinces to enter the federation. At the same time the Maritimes sanctioned the western development of communication so as to open up the British Northwest.

For more than two years the plan of the Quebec Conference for a federation was discussed by the provinces concerned. During this time the legislature of United Canada ratified the plan; Prince Edward Island and Newfoundland refused to ratify it, and the other two provinces took no definite action. However, delegates from United Canada, New Brunswick, and Nova Scotia went to London for a conference which opened on December 4, 1866. This conference accepted the Quebec resolutions as the basis of its work, and revised them to meet the objections which had been raised by the provinces during the two years of discussions. The term "federation" was dropped for the less appropriate word "confederation." A further pledge was made with respect to the building of the intercolonial railway, and the federal subsidies to the provinces were somewhat increased, each province being given a specific contribution for the support of its government. The number of members in the upper house of the federal legislature was made slightly flexible to avoid the possibility of deadlocks. The title "Kingdom of Canada," which Macdonald urged as the name for the new "confederation," would probably have been adopted had it not been observed by one of the British diplomats that "the monarchical term might offend the republican susceptibilities of the United States." Thereupon, Tilley proposed the old term "Dominion" as being particularly appropriate to the far-flung continental federation in prospect.

The British North America Act was drafted and placed before the British Parliament with the endorsement of Lord Carnarvon, the Colonial Secretary. Although Joseph Howe, at the head of an opposition delegation from Nova Scotia and the other Maritime provinces, had gone to England and campaigned vigorously against the federation, he won very little support. Naturally, his campaign was foredoomed to failure when directed against "a measure which promised so much more convenience for Downing Street and so much greater security and opportunity for British investors." [2] The measure became law on March 28,

[2] R. G. Trotter, "The Coming of Confederation," in *The Cambridge History of the British Empire,* Vol. VI, Canada and Newfoundland, Chapter 18, p. 461.

1867, without Canadian legislative or popular endorsement, and a royal proclamation announced July 1, 1867, as the official birthday of the Dominion of Canada. A supplementary measure, the Canadian Railway Loan Act, was also enacted guaranteeing the interest on a Canadian loan of £3,000,000 for the construction of an intercolonial railroad.

Four provinces—Quebec and Ontario (formerly United Canada), and the two Maritimes, New Brunswick and Nova Scotia—composed the Dominion when the British North America Act went into operation. The total area of these provinces was only about one-tenth of present-day Canada. Quebec and Ontario were each only a small fraction of their present size, since all the land draining into Hudson Bay was still controlled by the great British fur-trading company. Yet small as the new Dominion was, Nova Scotia threatened to withdraw, and Macdonald averted this move only by securing for it a larger Dominion subsidy. It was not until July 1, 1873, that Prince Edward Island was persuaded by subsidies to enter the Dominion, as the seventh province. In the meantime, two western provinces—Manitoba and British Columbia—had been added. The Manitoba Act of 1870, passed by the Dominion Parliament and confirmed by an imperial act of the following year, created that province out of the old district of Assiniboia, and gave it the same rights of local self-government as those of the older provinces. British Columbia became a province of the Dominion on July 20, 1871, by an Order in Council passed in London. The Canadian government undertook, in this connection, the building of a railroad to the Pacific Coast. Newfoundland decided not to join the Dominion, preferring to go along on its own.[3] The provinces of Alberta and Saskatchewan were created by the Dominion acts of 1905. Thus, in the course of forty years, nine provinces joined the Dominion.[4]

The British North America Act has been amended many times since 1867; indeed, it is now often referred to as a series of acts. The more important amendments were those of 1886, 1907, 1915, and 1930, pertaining to territorial representation in Parliament, provincial subsidies by the Dominion, increased senatorial membership, and surrender of

[3] On July 22, 1948, Newfoundland decided by popular referendum to join the Dominion, and was admitted as the tenth province on March 31, 1949.

[4] The nine provinces do not, as in the case of the forty-eight states of the United States, include practically all of the area of the Dominion. In addition there are the lands of the Yukon and the Northwest Territories, amounting to about 1,463,000 square miles, or 42 per cent of the total land surface of Canada. These territories lie east of Alaska and north of the four western provinces and Hudson Bay, their southern borders being on latitude 60 degrees north, which latitude is near the European cities of Oslo, Stockholm, and Leningrad. See C. C. Lingard, "Arctic Survey: Administration of the Canadian Northland," *The Canadian Journal of Economics and Political Science,* February, 1946, pp. 45–74.

public lands to the midwestern provinces. But even with these various amendments the British North America Act does not contain the whole, or even a considerable part, of Canada's constitution. This Act, for example, has no provisions relating to the executive, or concerning cabinet responsibility to the lower house of Parliament. For such provisions Canadians must hark back to British conventions, usages, and practices—to the informal or unwritten constitution. Precedents developed in this way are often of far greater importance than the provisions contained in the British North America Act or its amendments. Although this Act is often referred to as Canada's constitution, it is not strictly a constitution in the American sense. It does not outline the framework of Canadian government, but deals mainly with the federal structure which, up to that time, had not been built around parliamentary institutions.

The Federal Structure of Canada

The American device of federalism, as applied to Canada, actually means that the sovereign functions of the government are performed on two levels—Dominion and provincial. Contrary to practice under the English system, not one but ten cabinets are concerned with carrying on these functions. In adopting this arrangement, Canada pioneered in introducing parliamentary institutions into a federal system. Prior to this time, it was believed that British parliamentary government was compatible only with the workings of a unitary state. One parliament, it was thought, had to be supreme; there could not be divided spheres of authority in the government. But Canada has achieved this divided authority on a workable basis, though one must admit that it is still the source of many of the Dominion's acute political problems.

Nevertheless, it was impossible to establish the Dominion on any other than a federal basis, because of the heterogeneous nature of the country. The members of the Quebec Conference fully realized this. However, Macdonald, a firm believer in Hamilton's centralist plan which was rejected at Philadelphia, was determined to set up as strong a central government as possible in Canada. He attributed the American Civil War, then in progress, to the weakness of the national government of the United States. It was also apparent to the statesmen at Quebec that a strong federal government was necessary for the economic development of the widely scattered and sparsely settled provinces.

The British North America Act carried three provisions which were designed to provide a strong central government. It enumerated the matters on which the provincial legislatures were given power to legislate; it gave the federal government power to disallow provincial stat-

utes; and it provided for the appointment by the federal executive of the lieutenant governors of the provinces. Fifteen provincial powers were enumerated in the Act, such as property and civil rights, solemnization of marriage, education, incorporation of companies within each province, municipal institutions, and control of public works, together with a general exclusive provincial power over matters of purely local and private concern. All other powers were understood to be of national concern, and were therefore given to the Dominion Parliament. Twenty-nine of these powers were enumerated, the more important ones being the control of public debt, the postal service, coinage, banking, bankruptcy regulations, patents, fisheries, the army and navy, marriage and divorce, and the field of criminal law. On two matters, agriculture and immigration, the Dominion and provincial governments were granted concurrent powers, the federal power prevailing in case of conflict. The entire residuum of governmental powers, after this division of functions had been made, was left to the federal government, and not as in the United States to the individual states or to the people.

But judicial interpretation has greatly enlarged the scope of provincial powers in Canada, so that by the beginning of World War II the provincial legislatures controlled more matters of vital social and individual concern than the states of the American Union. While the courts in the United States have tended to limit rather than to enlarge the powers of the state legislatures, the Canadian courts and the Judicial Committee of the British Privy Council have increased those of the provinces by liberally interpreting the subjects allocated to provincial control. Starting in the early 1880's, the Judicial Committee has rendered a long series of decisions upholding and strengthening provincial autonomy. Instead of the provinces being hampered by the specific enumeration of powers, they have been, in effect, protected by this enumeration against the encroachments of the Dominion government. Even the residuum of power vested in the Dominion has been reduced by recent decisions of the Judicial Committee to Lord Haldane's concept of an emergency power for use only in times of war and national crisis, and the provinces have been given the virtual residuum of power under "property and civil rights," one of the enumerated provincial powers. The Dominion's general power is practically swallowed up by the expanded court decisions, and today Dominion authority is virtually locked in the enumerated powers given to it in 1867. The doctrine of "implied powers," which has been used by the United States Supreme Court to expand the application of the federal government's enumerated powers, has not been developed in Canada.

While the powers of the provincial legislatures have been enlarged

by judicial interpretation, the federal power of disallowance over provincial statutes has fallen more and more into disuse. Until the middle 1890's, the Dominion government often disallowed provincial acts on the grounds that they were *ultra vires*, unjust, or confiscatory in character. Then the doctrine became current that the illegality or injustice of provincial acts was a matter for the courts, rather than for the federal executive, to decide. Within recent years, there have been only a few disallowances of provincial acts, and these have not always been easy to justify because of the changed constitutional status of the provinces.[5] But the Dominion's power of disallowance still remains, and the extent of its exercise at any given time depends upon the opinions of the Minister of Justice or the wishes of the Cabinet.

The Dominion's control exercised through the appointment of the lieutenant governors of the provinces has been practically negligible. The conventions of parliamentary government make it as unconstitutional for the Dominion government to instruct the lieutenant governors in their duties as it is for the British government to instruct the Governor General. Aside from legislative veto, the Dominion government almost never attempts to intervene in provincial administration.

On the whole, the balance of power, prior to the beginning of World War II, had definitely swung from the Dominion government to the provincial governments, which was the reverse of the general movement that had taken place during this same period in the United States. To some Canadians this movement seems desirable, because of the vast changes that have taken place since the time of the federation. They hold that the provincial legislatures should be able to settle all questions vital to their economic expansion and well-being. They claim, too, that a highly centralized state cannot "deal effectively with the diverse problems of so vast a territory, or even curb the centrifugal forces of a community to which geography has not given unity." To most other Canadians it appears that the movement toward the enlargement of provincial powers has already gone too far. They see the need for invoking the Dominion's residuum of power, not only in time of national emergency, but also in administering the normal, everyday work of the government. They believe that a constitutional development that "weakens the federal authority in favour of the provinces may in time menace national unity and retard economic progress."

There are already indications that the drift toward greater provincial powers may have definitely ended, the result of circumstances and condi-

[5] In 1937, 1938, and 1939, eight Alberta statutes were disallowed, mostly on the general ground of invasions of the federal field of legislation. Up to 1924, about 100 provincial acts were disallowed; from 1924 to 1937 no provincial acts were disallowed.

tions arising out of the war. As a matter of fact, no constitutional hindrance actually exists to the full coordination of Dominion and provincial activities. The Dominion government and the courts retain supervision over the whole field of provincial administration. The provinces are not sovereign entities in the sense that the American states are.

THE FINANCIAL PROBLEMS OF FEDERALISM

Many of Canada's perplexing financial problems arise out of its federalism. This governmental device, which in 1867 actually made possible the creation of the Dominion, now seems to plague it at many turns. The delicate, but unstable, balance between Dominion and provincial governments of eighty years ago continues to be of prime concern, despite changing social and economic conditions. The original objective of union without unity is still pursued, paradoxical though it now seems to be. Since the time of federation, this aim has necessitated many political maneuvers, legal makeshifts, and financial bargains. Indeed, as indicated above, the Dominion was born of compromise arrangements between the four original provinces, each striving to gain those benefits which seemed to be to its advantage. And these arrangements have been continued ever since, with some modifications and temporary readjustments as new provinces have been added and unusual situations have arisen.

Until the depression of the 1930's the wealthy provinces of Ontario and Quebec seemed to regard the arrangements outlined in the British North America Act as a satisfactory solution from their own standpoints. The other provinces, except for occasional protests, were seemingly satisfied with what they got from the Dominion treasury plus the other benefits which accrued from the federation. From 1890 to the time of World War I the Dominion government appeared to be successful in assisting the separate economies of each region so that all the provinces shared in the general prosperity of that period. But fundamental economic changes followed the war, and the subsequent depression more or less undermined this prosperity. Even the wealthy provinces then became alarmed at the failure of the Dominion government to meet the crisis.

In August, 1937, the Dominion government recognized the gravity of the situation by appointing a Royal Commission on Dominion-Provincial Relations (commonly known as the Rowell-Sirois Commission) to make a searching investigation of the whole federal structure. The Commission spent nearly three years gathering facts and taking testimony in all the provinces and, with the aid of an able staff, prepared a voluminous report, supported by an imposing list of special studies.

Unfortunately, by the time the report was published (May, 1940) Canada was already engaged in World War II. Nevertheless, a Dominion-Provincial Conference was called together by Prime Minister Mackenzie King at Ottawa on January 14, 1941, to consider the recommendations of the report. After meeting for only two days, the conference broke up in acrimonious debate over provincial rights, the representatives of three of the provinces refusing even to discuss the proposals contained in the report.[6] Public attention thereafter centered on the war and related matters, and the report, with its detailed plan for bringing Canadian federalism more in line with present-day social needs, had been almost forgotten when, on August 6 to 10, 1945, another Dominion-Provincial Conference met in preliminary sessions. In the meantime, the Dominion's need for additional war revenues had led to temporary agreements with the several provinces under which the Dominion alone collected all income and corporation taxes and paid to each province a fixed sum in compensation for its loss from these sources. The Dominion also compensated the provinces for other diminished revenues, such as those from gasoline taxes due to federal war restrictions imposed on motor vehicle traffic.

The Dominion-Provincial Conference of August, 1945, had before it a comprehensive program for national development, stable employment, and health and welfare standards designed to maintain a high income and to prevent the recurrence, in so far as domestic policies could do so, of the kind of economic situation which existed in the 1930's. In order to meet the cost of this program, the Dominion government proposed that the provincial governments should by agreement forego the imposition of personal income, corporation, and succession (inheritance) taxes, leaving these taxes exclusively to the Dominion government. These proposals were studied and modified somewhat in preparation for a second meeting of the conference at the end of April, 1946. This meeting again ended in disagreement, the premiers of Ontario and Quebec refusing to go along with the premiers of the other provinces in accepting even the general proposals. Thereupon, the Dominion Minister of Finance, J. L. Ilsley, again revised the proposals in his budget speech of June, 1946, to adapt them to more limited application, and submitted them separately to the premiers of the nine provinces. During 1947, as the wartime taxation agreements lapsed, seven of the nine provinces accepted the Dominion government's revised proposals for a period of five years. Only Ontario and Quebec persisted in disregarding the proposals.

[6] Wilfred Eggleston, *The Road to Nationhood* (1946), p. 169.

Canadian Subsidy Arrangements

Under the terms of the British North America Act of 1867 free trade was initiated among the provinces, and customs and excise duties were thereafter levied solely by the Dominion government. Since these duties were the only taxes collected by the Maritime provinces, and since they amounted to four-fifths of the tax revenues of United Canada, this arrangement was a major sacrifice on the part of all the provinces. It was even necessary to make a special concession to New Brunswick by permitting it to retain export duties on lumber, a privilege that it commuted to a flat annual grant of $150,000 in 1873.

The provincial railways and canals were taken over by the Dominion, together with the debts that the provinces had incurred in building them. The Dominion also undertook the building of the Intercolonial Railway and the improvement of the St. Lawrence canal system. It, of course, assumed the expense of national defense. Since these things represented about 52 per cent of the costs of provincial and municipal governments in 1866, the gains to the provinces were important. As a matter of fact, the total yield of customs and excise duties in 1866 was very little more than the combined expenditures for national defense, debt service, and railway and canal projects.

Inasmuch as the per capita debts varied widely among the provinces, it was agreed that those provinces with debts in excess of $25 per capita (New Brunswick excepted, which was allowed the full amount of its debt, $27.77) would reimburse the Dominion for the interest computed at 5 per cent on the excess debt, and that those provinces with less would receive a cash subsidy equal to the saving to the Dominion. Under these arrangements Nova Scotia received reimbursement for a debt deficiency, and Ontario and Quebec took a deduction from their per capita grants for excess debt.

The main direct contribution of the Dominion to the provinces was the per capita grants, which were fixed at 80 cents per individual computed on the basis of the 1861 census and subsequently revised with each decennial census for Nova Scotia and New Brunswick until the population in each reached the 400,000 mark. This amount was roughly equal to Nova Scotia's estimated deficit under the federation arrangements. New Brunswick claimed special need and received an additional grant of $63,000, or about 25 cents per capita, to be discontinued at the end of ten years. Nova Scotia also received a special grant, beginning in 1868, as a result of Joseph Howe's antifederation campaign. This grant, like that of New Brunswick, amounted to approximately 25 cents per capita. The Dominion government also made a flat grant to each province for

the support of its general government. This latter grant varied in amount for each province, and was not closely related to population.

These financial arrangements with the provinces were made "in full settlement of all future demands on Canada," and the general impression was that they would be permanent. Nevertheless, there has been continual agitation for changes by the smaller and poorer provinces ever since 1867, and numerous revisions have been made from time to time.

Under the arrangements of 1867 Ontario received somewhat less than 50 per cent of its revenues from Dominion subsidies during the first decade of federation; Quebec received approximately 50 per cent; Nova Scotia, 80 per cent, and New Brunswick, 90 per cent. The only other important source of provincial revenues was from public lands. Provincial taxes were almost negligible, and the provincial governments were slow to develop direct taxes, which they were permitted to do under the British North America Act.

The original system of grants by the Dominion was established by bargaining rather than by following any systematic plan, and has been called "a tangle of opportunism and necessity." [7] Ontario, the province most eager for federation, made the greatest sacrifices. New Brunswick, the most hesitant, received the greatest concessions. As a matter of fact, the grant for general government was added to the other proposals at the London Conference in 1866 as a final inducement to the Maritimes. Prince Edward Island, however, did not join the federation until 1873 after its railway debt had become unmanageable, and after it had persuaded the Dominion government to give it a debt allowance double that of Ontario or Quebec and also a special grant because it had no income from public lands.

Manitoba, when created and admitted to the federation in 1870, was given a population subsidy, a debt allowance, and a grant for general government. Its population was estimated at 17,000, which was considerably above the number of white inhabitants shown by the 1871 census. Although the province had no debt, it was allowed an assumed debt on the same per capita basis ($27.77) as New Brunswick. This gave the province a total annual subsidy of $67,200,[8] which soon proved to be entirely inadequate to operate the provincial government. All public lands within the province were retained by the Dominion. In later years this gave rise to a prolonged controversy between Manitoba and

[7] A. W. Boos, *The Financial Arrangements between the Provinces and the Dominion* (1930), p. 88.

[8] The per capita allowance at 80 cents was $13,600, the debt allowance of 5 per cent on an assumed debt of $472,190 was $23,600, and the general grant in support of government was $30,000, a total of $67,200.

the Dominion which was not finally settled until 1930, when the public lands were turned over to the province.

When British Columbia joined the federation in 1871, it received a population subsidy, a debt allowance on the same basis as New Brunswick, a grant for general government, a subsidy of $100,000 a year in return for a strip of land forty miles wide through the province for the site of the contemplated Pacific railway, a Dominion guarantee of a £100,000 loan for dock construction at Esquimalt, and a Dominion commitment to push the construction of the Pacific railway. The agreements with respect to the railway and the dock resulted in considerable argument and were revised during the years immediately following. After these adjustments, British Columbia did not find it necessary to appeal to the Dominion for better terms until 1901.

When Alberta and Saskatchewan were incorporated into the Dominion in 1905, they were each allowed a population subsidy, a debt allowance, a grant for general government, a sum for public buildings (Manitoba had previously been allowed a sum for a like purpose), and a subsidy in lieu of public lands retained by the Dominion. These allowances amounted to a total annual subsidy for each province of approximately $1,124,000. The two provinces were satisfied with these amounts for only about six years, after which they began a controversy over the public lands held by the Dominion which was not adjusted until 1930.

The transfer of the public lands to the Prairie provinces in 1930 was the occasion of another and a successful demand for further compensation for the loss of provincial revenues during the time that the Dominion government had held these lands. Then came the depression together with a severe drought, which resulted in such bad conditions in the Prairie provinces that large grants for relief, as well as extensive Dominion loans, were sought and obtained. The Maritimes, prompted by the Dominion's concessions to the Prairie provinces, also asked for some readjustments in their subsidies and were given certain special grants. But in spite of these concessions, it was still contended at the time of the outbreak of World War II that the total sums granted by the Dominion government were modest as compared with the requirements of the growing volume of services which had to be performed by the provincial governments.

During the war period the total statutory subsidies to all the provinces amounted annually to approximately $14,400,000. Additional special grants had been voted for several years to the Maritimes, Manitoba, Saskatchewan, and British Columbia, which in the fiscal year 1941 aggregated $5,475,000. These grants, however, were replaced by "fiscal need" subsidies to the Maritimes, Manitoba, and Saskatchewan under the

Dominion-Provincial Taxation Agreement Act of 1942, amounting to $3,234,286.

The principal argument for the continuation of the Dominion subsidies to the provinces was that increasing governmental expenditures, especially for the social services, bore heavily upon the provinces under the federal division of powers, although their sources of revenue remained quite limited. The Dominion government, on the other hand, had unlimited tax resources and relatively restricted functions. For this reason, all but the two wealthy provinces—Ontario and Quebec—were obliged to turn to the Dominion for aid and assistance. The 1940 amendment to the British North America Act, which transferred unemployment insurance to the Dominion government, helped somewhat to relieve this situation. But it appeared that far greater shifts in the distribution of functions, or revenues, or both, were needed; at least, this was the general conclusion arrived at by the Royal Commission on Dominion-Provincial Relations.

Conditional Subsidies or Grants-in-Aid

The subsidies discussed above were mostly annual payments made by the Dominion to the provinces without any stipulations relative to their expenditure. In recent years, the Dominion had also given the provinces certain conditional subsidies, or grants-in-aid, to be used in financing special activities in the promotion of which the federal government was interested. These latter grants followed a pattern similar to that of federal aid in the United States, while the unconditional subsidies had no American parallel except in a few instances where small payments had occasionally been made to the states in lieu of taxes.

Conditional subsidies were first introduced in Canada in 1912 as an aid in promoting agricultural education in the provinces. In 1918 they were used for the establishment of public employment services, and in 1919 they were applied to highway construction, technical education, and the control of venereal diseases. They were extended to old age pensions in 1927 and to unemployment relief in 1930. Most of these subsidies were made for definite periods and have already lapsed. The only one which is still continued is for old age pensions.[9]

It is maintained by some Canadians that the conditional subsidies have been a fruitful means of cooperation between the Dominion and the provincial governments and have demonstrated the desirability of

[9] Dominion assistance to vocational schools was proposed in 1945, under the Vocational Training Coordination Act of 1942, authorizing the Minister of Labour to enter into agreements lasting ten years with any provincial government to provide Dominion assistance to vocational training equivalent to a secondary school level.

Dominion-provincial collaboration. The provinces have thus been enabled to extend their work in designated fields, or to initiate new work in the provincial sphere which they would not otherwise have been able to finance. The Dominion government, by this method, has been able to promote services which it thought desirable in the provinces and which it lacked the power to carry on directly. On the other hand, it is asserted that the conditional subsidies have been poorly applied in many of the provinces because the Dominion government did not effectively supervise the work. The temporary nature of most of the grants has no doubt affected the quality of the Dominion supervision. Some of the provinces, too, have resisted Dominion supervision of the activities promoted by the grants. They have preferred to have unconditional grants with no strings attached.

Interestingly enough in this connection, the Royal Commission on Dominion-Provincial Relations did not recommend the continuation of the conditional subsidies, although it did indicate that they were an improvement over the older unconditional subsidies. Instead it recommended complete federal support and administration of unemployment relief, and "national adjustment grants" to the provinces to equalize the cost of other provincial and municipal services. The advantages claimed for such grants were that they would permit the provinces to support an acceptable national minimum standard of social services and at the same time allow independence in administering the functions allotted to them.

The Allocation of Canadian Tax Sources

The British North America Act of 1867 specifically allocated direct taxes to the provincial and municipal governments and authorized the Dominion to raise its revenues "by any mode or system of taxation." According to the practice of that day, it was assumed that the Dominion would levy indirect taxes, mainly customs and excise taxes, as opposed to direct taxes which the provinces would develop. This the Dominion virtually did for almost fifty years, thus keeping its tax sources separate from those of the provinces and municipalities.

The provinces were slow in developing direct taxes. By 1913 they were obtaining only about one-fifth of their total revenues from corporation, inheritance (succession), and personal income taxes. Corporation and inheritance taxes were by far the most important of these sources. The yield from personal income tax was negligible, although two provinces were using it. The municipalities had depended upon real estate taxes from the beginning, obtaining 80 per cent of their tax revenues from this source in 1866 and about 90 per cent in 1913. The remaining

municipal tax revenue in 1913 came largely from licenses, although municipal income taxes were in use in Nova Scotia.

When Canada was drawn into World War I, the Dominion government attempted to obtain the needed moneys for war financing through the increase of taxes already in force and through borrowing. When these sources proved inadequate, it began to encroach on provincial sources by the levy of a gross receipts tax on the income of certain types of corporations in 1915, and by the levy of a war profits tax in 1916. And in 1917, as a war measure, it levied a personal income tax for the first time. As a result of these new taxes, the Dominion government obtained about a third of its tax revenues from personal income and corporation taxes in 1921 (the war profits tax had been discontinued at that time, and a sales tax had been added in 1920). The provinces were likewise obtaining approximately a third of their revenues from similar taxes, although the extensive development of provincial income taxes came later. From this point on the overlapping of Dominion and provincial tax sources steadily increased.

Despite this overlapping, the Dominion government in 1937 was still getting approximately three-fourths of its tax revenues from customs, excise, and sales taxes, which (except for small sales taxes in three provinces) were not duplicated by provincial or municipal levies. And the provinces in turn were obtaining about three-fifths of their revenues from sources which were not duplicated by either the Dominion or the municipal governments. Inheritance taxes, amusement taxes, motor vehicle licenses, and gasoline taxes were used by all the provinces in 1937, but not by the Dominion government. Corporation income taxes and personal income taxes, however, were being levied by both the Dominion and the provincial governments.

The Royal Commission on Dominion-Provincial Relations, in its report published in 1940, criticized the duplication involved in the field of personal income taxes, and recommended the withdrawal of the provinces and municipalities from this field. It also recommended exclusive Dominion taxation of corporations, inasmuch as there had been considerable friction in this field. At the start of World War II corporation taxes showed perplexing diversities as between the provinces, and sometimes more than one base was used by the same province. Each province tried to design a formula for the distribution of interprovincial corporate income so as to get the maximum revenue for itself, which frequently led to double taxation.

Interprovincial competition was also keen for inheritance taxes as well as for corporation taxes, and multiple taxation often resulted. Reciprocal agreements between the provinces to avoid such taxation were

gradually established after 1907, but the wealthier provinces—Ontario and Quebec—failed to reach an agreement until very recently. Meanwhile several of the other provinces had cancelled their agreements. Then, in 1941, the Dominion government invaded the inheritance tax field for the first time as a means of extending its war financing program. This was not unexpected, since the Royal Commission on Dominion-Provincial Relations had urged the transfer of inheritance taxes to the Dominion inasmuch as it considered them wholly unsuited for provincial administration.

As recently as 1940, more than half of the Dominion government's tax revenues still came from sources not used by the provinces. But the demands of war financing then began to change the whole federal tax picture. At the Dominion-Provincial Conference of January, 1941, the Dominion Minister of Finance, J. L. Ilsley, served notice on the provincial representatives that if they did not agree to discuss the tax transfer recommendations of the Royal Commission, the Dominion government would have to invade the provincial tax preserves.[10] After only a two-day session, the conference ended rather abruptly without any mutual understandings. Shortly thereafter the Dominion government imposed an inheritance tax and a 3-cent gasoline tax. Both of these taxes had belonged exclusively to the provinces up to that time. The Dominion government also asked the provinces to vacate both the personal and corporation income taxes for the period of the war and a year thereafter. By the end of 1941 this had been agreed to by all of the provinces. Thus all provinces temporarily collaborated with the Dominion under the pressure of war financing.

But there had been some collaboration between the Dominion and the provinces in tax matters even before World War II. Three of the provinces had permitted the deduction of Dominion income taxes from the computation of income for provincial purposes. Four of the provinces had turned over the collection of their income taxes to federal officials before the Dominion government took over the income tax completely. Between 1936 and 1940, Ontario, Manitoba, Prince Edward Island, and Quebec arranged with the Dominion for joint collection of their income taxes to the apparent satisfaction of each. This arrangement was declared to be feasible so long as the Dominion and provincial definitions of income were the same, even though deductions, exemptions, and rates were different. Incidentally, joint collection of federal and state income taxes has not been attempted in the United States.

In the financing of World War II, the Dominion government appeared

[10] *Minutes of the Dominion-Provincial Conference,* Plenary Session, 1941, p. 75.

to move in the direction of realizing the tax recommendations of the Royal Commission on Dominion-Provincial Relations. The Commission proposed that the Dominion should be assigned the income and corporation tax fields, and should in turn assume the burden of provincial debts. Temporarily, the Dominion took over by agreement these fields, and indirectly assumed the burden of the debt service of five provinces (the other four provinces electing an alternative base).[11] The Dominion also invaded the inheritance tax field of the provinces with the apparent intention of ultimately taking over the entire field, as was recommended by the Royal Commission.

Even before World War II had ended, it was apparent that Canada could not return in the postwar period to its previous federal finance structure. Indeed, there were already strong indications that the temporary war arrangements might constitute a step toward the reconstruction of Dominion-provincial relationships. At a preliminary session of the Dominion-Provincial Conference called at Ottawa on August 6, 1945, the Dominion government proposed that the provinces cede to the Dominion voluntarily for a minimum of three years (later extended to five years) their rights to collect personal income, corporation, and inheritance taxes. It also asked the provinces to agree to give the Dominion increased jurisdiction over labor and wages. In return the Dominion proposed to provide increased subsidies for the provinces so as to maintain their economic stability; to reduce and equalize personal income, corporation, and other taxes; to encourage private industry so as to increase employment; to develop natural resources and make them accessible to private industry; to extend unemployment insurance; to establish a universal old age pension system; and to inaugurate a nation-wide health insurance scheme to be financed jointly by the Dominion and the provinces. These proposals were thoroughly discussed with the provincial leaders in several closed sessions during a period of about nine months. Counter proposals were submitted by several of the provinces, and extensive revisions were made by the Dominion government in its proposals. An open session of the conference was held on April 29, 1946, which lasted for five days and then adjourned *sine die,* the premiers of Ontario and Quebec refusing to accept the revised proposals of the Dominion.

About two months later, Dominion Finance Minister J. L. Ilsley, in his budget speech of June 27, again revised the proposals, so as to adapt them to a more limited application, hoping that a number of the prov-

[11] The Alberta debt refunding operations of 1945 served to switch that province from the "tax" option to the "debt" option, and retroactive adjustments were made by the Dominion government on that account. See below, p. 231.

inces would agree to cooperate with the Dominion on the new basis before the expiration dates of their temporary wartime taxation agreements. Several of the provincial premiers then indicated that the proposals were acceptable to their governments, provided certain minor adjustments were made in them.

By the end of January, 1947, the Dominion government had modified its proposals so as to achieve what it regarded to be the maximum degree of equalization in the terms of payment to the different provinces. This time the arrangements were on a purely fiscal basis and did not embody the public investment and social welfare features of the earlier proposals. Each province was guaranteed a minimum annual payment which was subject to adjustment upward for increases in provincial population and in gross national product per capita, averaged over the last three years. For Prince Edward Island, however, the minimum payment was fixed at a flat sum. The other provinces were given the choice of payments arrived at on the basis of two calculations. The provinces accepting these payments from the Dominion government were to agree for a period of five years to refrain from levying income, corporation, and inheritance taxes. At the same time, provisions were made so that taxpayers would not be unfairly treated in provinces which might delay in making agreements or fail to accept the payments.

The Dominion government's final proposals were embodied in the Dominion-Provincial Tax Rental Agreements Act of 1947. This act set forth the general terms and conditions governing the financial agreements between the Dominion government and the provincial governments accepting the arrangements. It also specified the minimum annual payments which the Dominion government guaranteed to the agreeing provinces.[12] By the end of 1947, seven of the nine provinces had accepted the Dominion's proposals, enacted supporting legislation, and signed agreements. Only Ontario and Quebec remained aloof.

The chief stumbling block in the case of Ontario and Quebec appeared to be the surrender of the inheritance tax field to the Dominion, though in respect to the use of certain minor taxes they wished to have the Dominion's right limited. They argued that inheritance taxes related to "property and civil rights," which were matters entirely within the provincial sphere. Although the Dominion government refused to concede this argument, it offered some concessions to the provinces which wished to remain in the inheritance tax field. The seven agreeing provinces, however, withdrew from the field under the terms of their agreements.

[12] See below, pp. 244–49.

The arguments of Ontario and Quebec (joined by Nova Scotia) that certain taxes constitute suitable sources of provincial revenue was recognized, though rather reluctantly, by the Dominion government. In April, 1947, the Dominion government withdrew from the gasoline tax field, in spite of the fact that its three cents on the gallon tax was one of the most lucrative of the minor taxes. Then in November, 1947, it discontinued the tax on electricity, which had been levied as a means of reaching electrical utilities under provincial or municipal ownership. Finally, in May, 1948, the federal taxes on amusements and pari-mutuel betting were removed. And so the Dominion government made a continuing bid for early agreements with Ontario and Quebec.

Before 1948 was very far advanced some of the agreeing provinces had expressed disappointment over the fact that the public investment and social security provisions of the Dominion's earlier proposals were not being made available to them in connection with the financial agreements of 1947. The Dominion government maintained, however, that these provisions could be worked out later when all provinces had accepted the tax distribution and federal reimbursement plan set forth in the Tax Rental Agreements Act. But some Canadian authorities doubted that this could be done successfully, even if Ontario and Quebec became parties to the fiscal arrangements. They contended that these arrangements were at best only temporary, and in their very nature could not provide a permanent solution to the problem of Dominion-provincial relations.[13] And so the perennial struggle for fiscal advantage continued between the Dominion and the provinces. In the meantime, however, exclusive Dominion control of three major taxes until 1952, even within a part of the country, was regarded as a notable addition to federal power. It meant that multiple taxation could be minimized or even eliminated in this area, and that tax rates and conditions could be adjusted in accordance with the Dominion government's countercyclical budget policy.[14]

Financial Status of the Provinces

From a constitutional standpoint, the provinces of Canada are fiscally independent of the Dominion in the sense that they can control their budgets and the nature and extent of their indebtedness. Each province can fix the character and limits of its expenditures and, within certain types, can levy whatever taxes may be necessary to balance its budget; it can also borrow for any purpose and in any amount it thinks advan-

[13] See, for example, R. MacGregor Dawson, *The Government of Canada* (1947), pp. 135–36.

[14] See below, pp. 85–88.

tageous. But there are certain political, as well as economic, limitations on the complete freedom of provincial action. The fact that the Dominion government assumes financial responsibility to the provinces in such matters as subsidies, contributions, loans, and compensation for tax losses under joint agreements indicates some definite limitations on the revenue-producing capacity of each of the several provinces. The provinces may not use some taxes or raise the rates of other taxes because the Dominion exploits these taxes; and this is wholly apart from economic conditions which may also limit the volume of provincial revenues and consequently the aggregate of provincial expenditures.

While the Dominion government may not take any direct steps about the financial legislation and policy of a province, it may indirectly make its position on such matters quite clear. The Dominion Executive may exercise a suspensive veto over undesirable provincial fiscal legislation, or it may file a protest with the provincial executive on objectionable fiscal policy. An example of the latter is the communication which the Dominion Minister of Finance sent to the premier of the Alberta government relative to the reduction of provincial bond interest by 50 per cent and the province's continued default on bond redemptions.[15] The Dominion government may even make its protest more persuasive by withholding some of the concessions which it has occasion to dispense to the provinces. Incidentally, the United States government would never think of taking such an attitude toward one of the forty-eight *sovereign* states, no matter if the state deliberately ran itself into bankruptcy with embarrassing repercussions for the whole country.

Interprovincial fiscal relations have been largely neglected in Canada, although there are some examples of cooperation in the tax field. After many years of independent and competitive action, Ontario and Quebec finally entered into a recent agreement to prevent double taxation in provincial inheritance taxes. Earlier agreements of a similar nature had been laboriously arranged by some of the other provinces, only to be discarded when the wealthier provinces showed no interest in cooperating. A few provinces and the Dominion government, mainly the latter, have long been interested in uniform financial data, but interprovincial cooperation in a matter so simple as a common fiscal year has not yet been fully attained, though marked advances in this direction have recently been made. When uniform accounting classifications and reporting procedures have been suggested for the provinces, they have often

[15] Letter of March 3, 1945, written by J. L. Ilsley to E. C. Manning of Alberta, and released to the Canadian press. See below, pp. 293–96, for further discussion of the Alberta debt situation.

been eyed with something akin to disdain by the provincial fiscal officers. But in these respects, the provinces of Canada are not unlike the states of the United States; however, since there are only about a fifth as many provinces as states, it would seem to be a much simpler matter for the provinces to reach a common agreement.

Proposals for Dominion-Provincial and Interprovincial Collaboration

Those who have studied Canadian federalism in recent years believe that frank and full collaboration between the Dominion and the provinces and among the provinces themselves offers the best method of attacking some of the federation's most vexing problems.[16] The method most commonly used to bring about collaboration has been the Dominion-provincial conference, consisting of the premiers and some of the other ministers of the ten governments and their administrative and technical advisers. About a dozen such conferences have been held since 1900. Prior to the conference of August 6-10, 1945, no broadly constructive plan could be said to have been considered, and some of the conferences ended in ugly wrangles. The conference of August, 1945, although of a preliminary nature, pointed the way to some far-reaching results. The Dominion representatives had a definite program for action, carefully prepared in advance, which was submitted to the provincial representatives.[17] After some discussion the conference was adjourned to meet at a later date, when the provincial representatives had had ample opportunity to study the Dominion's proposals.

An important step for the future of the Canadian federation was taken at this conference when its steering committee unanimously agreed to set up a "continuing coordinating committee," consisting of the Prime Minister, three of his ministers concerned with Dominion-provincial relations, and the nine provincial premiers. This coordinating committee, in its terms of reference, was charged with considering improved machinery for Dominion-provincial cooperation. It was also instructed to supervise and coordinate the work of all the committees established by the conference. While this may not sound like a revolutionary move, it was considered a distinct advance over the old system of ten autonomies in Canada. Once the ten premiers had agreed on a desirable program of

[16] The Royal Commission on Dominion-Provincial Relations gave as its positive conviction after nearly three years of study that "the situation is so serious that conflicts of policy between the Dominion and provinces or between province and province have become a luxury which Canada cannot afford, and the sterility of policy which chronic conflict is apt to engender may be an even greater evil than conflict itself." *Report*, Book II, p. 78.

[17] Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada*, August, 1945. See below, Chapter X, for a discussion of the proposals.

collaboration, it could be carried into effect immediately because of their key positions as leaders in the ten legislative bodies of Canada, which is a great advantage over any similar arrangement in the United States.

The Royal Commission on Dominion-Provincial Relations proposed the creation of a Finance Commission by the Dominion government, to supplement the work of the Dominion-provincial conferences, which would then meet permanently, on an annual basis, rather than sporadically, as now. The Finance Commission would be a small body, resembling the Australian Commonwealth Grants Commission, with an adequate technical staff. It would act as a research staff and secretariat for the Dominion-provincial conferences. It would make a periodic review (at least, every five years) of the "national adjustment grants" to the provinces, as proposed by the Royal Commission, and would advise on all provincial requests for new or increased grants. The Finance Commission would also be required to approve certain types of provincial bond issues.

The Royal Commission pointed out in its report that the provincial governments might collaborate with the Dominion government in some of the more important public services, thus avoiding duplication of effort and additional cost. In the agricultural services, it thought that there was considerable room for improvement by the elimination of obsolete and useless activities. It suggested methods of avoiding the duplication of numerous tax collecting offices, the increased governmental expense of audits, and unnecessary costs and annoyances to the taxpayers. In the public health services, it found duplicate work carried on by two or three of the larger provinces, but observed that some of this duplication was inherent in federalism. The enforcement of provincial as well as Dominion statutes in six of the nine provinces, the Royal Commission pointed out, was intrusted to the Royal Canadian Mounted Police under agreements between the Dominion and the provinces concerned. The other three provinces—Ontario, Quebec, and British Columbia—continued their own provincial police forces. The Royal Commission was of the opinion that in these three provinces duplication existed and considerable sums could be saved by the negotiation of arrangements with the Dominion government similar to those in effect in the other six provinces. The latter provinces, it was asserted, had been able to reduce their police costs by half as a result of their agreements with the Dominion. Analogous savings in the other three provinces the Royal Commission estimated would amount to as much as a million dollars a year. But then it added that, judging from private and public evidence, it was convinced that the waste due to "outmoded, redundant or misdirected activities" involved much larger amounts than

any physical overlapping between the services of different governments.

On the immediate importance of administrative savings and economies by all governments, when viewed in relation to the enormous war expenditures, the Royal Commission struck a rather somber note for Canadian taxpayers. It said: [18] "On the whole it is to expansion of the national income, i.e., of taxpayers' income, rather than to substantial reduction in expenditure that taxpayers must look primarily for relief, for as their income increases taxation at its present level will become a smaller and smaller proportion of that income." But then the Commission hastened to add that "In a large measure the expansion of the national income is dependent on external conditions over which Canada has no control."

Some American and Canadian Parallels

The fiscal and related situations existing in the two countries when the United States of America was created in 1789 and when the Dominion of Canada was established in 1867 were in some respects parallel, although in point of time they were three-quarters of a century apart. Customs duties were important sources of revenue in the American colonies just as they were later in the Canadian provinces. Public works, however, were conducted in the American colonies largely by the municipalities, while later in Canada they were developed mainly by the provinces. The debts of the American colonies at the time of federation were therefore largely those growing out of the Revolutionary War. Hence there was little question about the assumption of these debts by the new federal government. Since the successive steps in the movement for Canadian federation took place mainly after 1835, and since the revolutionary uprisings of the Canadians had been of short duration and relatively inexpensive, the debts of the provinces were composed, not of war debts, but largely of debts for public works. If the American federation had been postponed until around 1840, there would have been about $230 millions of state debts to assume, the burden of which, as in Canada, was distributed unevenly among the states in proportion to population, to developed resources, or to capacity to pay. American statesmen might, therefore, have evolved at this later date a formula for federal assumption not differing widely from that applied in Canada.

The one important feature of colonial government which assumed a somewhat different status in the two countries was the "public domain," or public lands. The thirteen American colonies had waged a successful revolution against the mother country, and in the peace treaty each of the

[18] *Report,* Book II, p. 166.

former colonies reserved title within its often poorly defined boundaries to the unalienated lands which remained under the old colonial grants. In addition, the new national government obtained at least a shadowy title to the "unappropriated" lands extending westward to the Mississippi river. This national title was clouded by the conflicting claims on the part of seven of the former colonies, now become "sovereign" states. Six states, on the other hand, had no claims to western lands. These, under the leadership of Maryland, insisted on the extinction of the claims of their more fortunate sister states and a pooling of all western lands in the public domain of the federation. This was eventually done, and the domain later provided a major source of revenue for the new national government.

As early as 1837, the provincial assembly of New Brunswick gained supervision over the revenues obtained from crown lands by the British governor in that province. Then following Lord Durham's report the British government decided to transfer the crown lands to the provincial authorities, and between 1840 and 1852 these lands were turned over to United Canada, New Brunswick, and Nova Scotia. The crown lands in British Columbia were likewise vested in the provincial authorities. No crown lands remained in Prince Edward Island, but a large part of the island was still held by absentee proprietors, who continued in possession until 1875 in spite of frequent political feuds over "the land question."

When the four original provinces—Ontario, Quebec, New Brunswick, and Nova Scotia—joined to form the Dominion in 1867, they each controlled the public lands within their separate boundaries. But in the cases of Quebec and Ontario these boundaries encompassed only a small part of the present area of each province. A large part of what is now northern Quebec and northern and western Ontario belonged to the Hudson's Bay Company. This company, still one of the world's great trading organizations, was established in 1670 by a royal charter signed by Charles II, granting to his first cousin, Prince Rupert, a major portion of what was eventually to become the Dominion of Canada. The territory so granted was known as Rupert's Land, and included the whole northern part of the continent, extending from Labrador to the Rocky Mountains, an immense region where today stand the cities of Winnipeg, Regina, Saskatoon, Calgary, and Edmonton, and to the north of these the almost interminable stretches of wilderness that form the approaches to the great frozen wastes of the Arctic. The company retained its vast holdings and prospered during the long struggle between the French and English for supremacy on the North American continent. Then in 1870, two centuries after its charter was granted, it transferred its terri-

tory to the newly formed Dominion of Canada. The company received £300,000 from the Dominion as compensation for its claim, and at the same time retained its trading posts and adjacent lands with full freedom to conduct its trade.

Almost immediately the province of Manitoba was organized within the former territory of the company. In the organization of the province, the Dominion government decided to retain control of the public lands, apparently with the idea of getting back some or all of the £300,000 paid the company, insuring the means of building a Pacific railway, and obviating the likelihood of local obstruction to the rapid settlement of the province. The same policy was pursued by the Dominion in organizing the provinces of Saskatchewan and Alberta in 1905. Soon the public lands became a controversial question between the Prairie provinces and the Dominion, which was not settled until 1930 when they were transferred to the provinces.

Chapter II

THE DOMINION'S FINANCIAL STRUCTURE

THE legislative, executive, and administrative machinery of the Dominion government follows in general the British pattern. Its proper functioning is not complicated or impeded by any doctrine like the American separation of powers. Its actions are direct and usually prompt, and its responses to public opinion are immediate. Its political heads do not carry on by the calendar, as do those of the United States, but may be changed whenever the sentiment of the country so dictates. In matters of finance, its structure and methods are predominantly British, but with some interesting differences which have developed by reason of American environment and influences.

As an easy approach for American readers to a full discussion of the financial organization and workings of the Dominion government, a brief description of the governmental machinery would seem to be in order.

THE GOVERNMENTAL MACHINERY OF THE DOMINION

The legislative body of the Dominion is a bicameral Parliament, patterned after that of Great Britain, but with some notable exceptions. In a legal sense, the British King is head of the Dominion Parliament, but since he cannot fill this role in person he is represented by the Governor General. The Dominion Parliament is summoned, prorogued, and dissolved by the Governor General, and his signature transforms its bills into acts. But even with all this show of authority the Governor General is merely the personal representative of the King—his viceroy, and nothing more. He can only act upon the advice of the Dominion Cabinet, which assumes full responsibility for everything he does. While the Governor General is formally appointed by the King for a term of six years, he is actually selected by the government in Ottawa, which pays his

annual salary of \$48,666.66 (£10,000 sterling) and provides him with an official residence, Rideau Hall, and with living and traveling expenses, adding up to about \$125,000. While a British peer has always held the office of Governor General, with one early exception, there is nothing that stands in the way of a Canadian being selected. It is purely a matter of tradition for an outstanding Englishman to be chosen for the office; but seemingly a desirable tradition, since he affords a personal link with the mother country, and enjoys the advantage of being able easily to abstain from party politics in Canada, a requirement for holding the office.

The Dominion Senate

The Dominion Senate, the upper house of Parliament, is constituted on a geographical basis to protect sectional interests, thus remotely resembling the United States Senate. There are 96 senators, distributed as follows: Quebec, 24; Ontario, 24; the Maritimes, 24 (Nova Scotia and New Brunswick, 10 each, and Prince Edward Island, 4); and the four western provinces, 24, or 6 each.[1] Four distinct regions are thus recognized in the senatorial representation, each being given the same number of members. The rule of equal membership for each state or province, as applied in the United States and in Australia, is not followed. The members from Quebec alone represent senatorial districts; in the other provinces, representation is at large. The senators are appointed for life by the Governor General, which means that the Government of the day really appoints them. It is interesting to note that Macdonald got this idea from Hamilton, whose proposal that United States senators should be appointed for life was rejected at Philadelphia.

The appointment of Dominion senators always follows the party in power in the House of Commons, with the result that when one party has had control of the government for several years the majority of the senators will belong to that party. The Senate, therefore, is always in political harmony with the House except after a change of government, when it is usual to have some friction until enough senators are appointed to vacancies to swing that body into party accord. But even when the Senate is politically opposed to the House, it has never dared to hold out obstinately against the House, since the latter has the support of public opinion. At any rate, senatorial opposition rarely lasts for long, because most of the senators are old men and their ranks thin rapidly, usually by some four or five every year. Nevertheless, while this opposition lasts it makes for easy transition of the government from one party to another,

[1] Newfoundland has an additional six senators by virtue of becoming a province on March 31, 1949.

and often serves as an excuse for not carrying out rash campaign promises. It should be observed, however, that the Dominion Senate is not nearly so important in the legislative scheme as the United States Senate; its powers are quite limited, in practice amounting to little more than incidental review and revision of the measures which come to it from the House of Commons. Indeed the primary use of the Dominion Senate is said to be "to provide a dignified seclusion for retired politicians who have deserved well of their party leader." [2] There has long been much criticism of the Senate and considerable opinion exists throughout Canada in favor of abolishing it. Incidentally, it is the only second chamber, outside of the one in Quebec, to survive.

The House of Commons

The supreme source of political power in the Dominion government is the House of Commons; from it springs the Cabinet, or controlling executive committee, under the parliamentary system. The House now consists of 245 members,[3] elected by universal suffrage. As in Britain, the members do not have to be resident in the constituencies for which they sit. They do not serve for a fixed term, as do the representatives in the Congress of the United States. A general election must be held every five years, but it is unusual for Parliament to last that length of time, the average length being about four years.

By a 1946 amendment to the British North America Act (sec. 51) the House of Commons of the next Parliament will have 255 members, aside from the seven members recently assigned by the "Terms of Union" to Newfoundland, or a total of 262 members. Under the provisions of this amendment, one member is assigned to the Yukon Territory (plus the Mackenzie district) and four members are assigned to Prince Edward Island (equal to the number of senators), leaving 250 members for the other eight provinces. These 250 members are distributed on the basis of population, so that Quebec is no longer limited to 65 members as in the past. Under the new apportionment it is calculated (on the basis of the 1941 census) that Quebec will have eight additional members, British Columbia two, and Ontario and Nova Scotia one each, while Manitoba and Saskatchewan will lose one member each. New Brunswick and Alberta will retain the same representation as at present.[4]

The Dominion House of Commons follows the usages of its greater prototype at Westminster, with some slight deviations. The Speaker, for example, is not completely removed from politics, as he is in the British

[2] H. McD. Clokie, *Canadian Government and Politics* (1944), p. 120.
[3] Seven more members are added for the province of Newfoundland.
[4] *House of Commons Debates* (Daily ed.), February 21, 1947, p. 712.

House of Commons. In Britain, although the Speaker may be elected by a party vote, he immediately drops all party bonds and becomes an impartial moderator. A change in ministry does not affect his tenure of office. If he wishes to continue his services in a new Parliament, the practice is to reelect him, without reference to the party in power. But in Canada each party change brings in a new Speaker, and it is no secret that he is selected by the Cabinet; furthermore, he usually holds office only for the duration of one Parliament. There is also a tradition, seldom disregarded, that the speakership must alternate between representatives of the English and French races. The Canadian Speaker, however, is not a leader of the majority party in the House, as is the case in the United States, and he is not expected to use his position for the advancement of his party. Ordinarily, Canadian Speakers have conducted themselves with commendable impartiality.

The legislative procedure in the Dominion House of Commons follows rather closely that of Britain, but standing committees are used to a greater extent. The Government controls the legislative output, and the bills of private members have little chance of passing without Cabinet support. All money bills must be sponsored by the Government. Party caucuses and party whips are employed to keep wavering members in line so they will support the Government's program. The Opposition Leader receives a special salary, equal to that of a member of the Cabinet, for his efforts as the chief critic of this program.

The Dominion Executive

The real head of the Dominion government is not the King or the Governor General but the Prime Minister, who is the political leader of the House of Commons. In other words, the Prime Minister is the directing head of both the executive and the legislative powers, since the parliamentary system coalesces rather than separates these powers. The members of the Cabinet, who usually number from 16 to 20, are selected by the Prime Minister, and they are customarily the leaders of the major political party or coalition group in the House of Commons. But the Prime Minister, in making his selections, must bear in mind the long-standing practice of federal and racial distribution of cabinet posts. Quebec always expects to have four ministers—three French and one English—while Ontario feels entitled to four ministers and the other provinces to at least one each. Not only does this federalization of the Cabinet provide a rather large body but it sometimes has the disadvantages of forcing mediocrity upon the Prime Minister and of giving him something of a motley team of associate ministers with which to conduct his government. On the other hand, federalization does permit a bond

of union to exist in the Cabinet which tends to strengthen the federal ties among the provinces. Macdonald evidently had this idea in mind when he selected the first Cabinet. According to Bourinot, this Cabinet consisted of thirteen ministers, five from Ontario, four from Quebec, and two each from Nova Scotia and New Brunswick. The ministers are paid annual salaries, in addition to their parliamentary indemnities of $4,000 (plus $2,000, tax exempt) each, which amount to $17,000 for the Prime Minister, and $12,000 for each of the other ministers with portfolio.

The Canadian cabinet system provides a flexible government that is responsive at all times to the changing sentiments and conditions of the country. It is not a rigid government, like that of the United States, which operates by the calendar, a government that cannot be voted out of office no matter what situation may arise except on a given date established in advance. The Dominion Prime Minister not only controls the Cabinet but he is also responsible directly to the House of Commons for everything the Cabinet or any of its members does. If a Government bill (one sponsored by the Cabinet) is rejected or seriously amended by Commons, or if Commons by a straight vote expresses a lack of confidence in the Government, then the Cabinet is deemed to have lost the support of the majority in Commons, and the Prime Minister must either resign or dissolve the House and appeal to the people in a general election. After this election he must resign unless his party has secured enough seats in the new House to assure him of its support. The Prime Minister's resignation automatically dissolves the Cabinet. Since the Prime Minister may decide to hold a general election at any time, he thereby has a disciplinary check upon any irresponsible followers in the House, and since the members of his party in the House can force him out of office whenever they desire, they have a corresponding check upon him. Thus greater and more continuous responsibility to the people than can ever be attained under the American presidential system is definitely promoted and assured.

The Canadian Cabinet system has been criticized for its failure to provide the ministers with parliamentary under-secretaries, as in Great Britain, who could take over some of the detailed work which consumes the time and energy of the ministers. In 1943, the House of Commons made provision for the appointment of ten "parliamentary assistants" to aid the ministers of certain departments. These assistants are not members of the Cabinet, but they go out of office with the Cabinet. They are paid $4,000 each in addition to their parliamentary indemnities. Their main duty is to relieve the ministers from constant attendance in Commons.

It is interesting to note in this connection that party government in Canada, even more than in Britain, attaches great weight to political leadership.[5] Party leaders therefore take the limelight in parliamentary elections. Although Canadians do not vote directly for any party leader except in his own constituency, they nevertheless are able to make their votes count for the leader they want. They know that the party which can claim the majority of the members in the House of Commons is the one whose leader will become the Prime Minister, and they vote accordingly for their local candidates. They know, too, that the rival party leader, or runner-up in the election, will also be a member of the House of Commons, and will hold the office of Opposition Leader in the House, a position of considerable influence. This practice, incidentally, stands in striking contrast to the American usage according to which the defeated party leader ordinarily has no voice in the future government.

Party leaders in Canada usually carry on until death or resignation in spite of occasional electoral defeats. Frequently a leader has remained at the helm of his party for twenty or thirty years. Macdonald was leader of the Conservative party from the beginning of the federation until the time of his death twenty-four years later. Laurier was leader of the Liberal party for thirty years, and was succeeded in 1919 by Mackenzie King, who served in that role for almost as long before he retired in 1948. Incidentally, Mr. King, when he relinquished the office of Prime Minister on November 15, 1948, had held it longer than any other Canadian, surpassing in June, 1946, the record of nineteen years set by Macdonald. Indeed, Mr. King was said to have served longer in this democratically elective post than any other man in history.

The General Financial Organization

The existing financial structure of the Dominion of Canada rests upon a legal foundation provided by several acts, some of which date back to the time of federation. Among the more important of these acts may be mentioned the British North America Act, the Department of Finance and Treasury Board Act, the Consolidated Revenue and Audit Act, the Department of National Revenue Act, the Civil Service Act, and the Bank of Canada Act. The British North America Act of 1867, as previously noted, set up the parliamentary machinery and defined in broad terms the powers of the two houses of Parliament on fiscal matters. It did not, however, mention the Cabinet; so that the subsequent development of this executive body and the definition of its powers were

[5] H. McD. Clokie, *Canadian Government and Politics* (1944), pp. 90–91; also R. MacGregor Dawson, *The Government of Canada* (1947), pp. 508–10.

left to follow the British traditions. The Department of Finance and Treasury Board Act created two instruments of financial administration and control in the newly established Dominion government—the Department of Finance and the Treasury Board. The Minister of Finance was made the head of this department and also the chairman of the Treasury Board. The latter body consisted of himself and five other ministers. The Consolidated Revenue and Audit Act established the office of Auditor General, and outlined the procedures for receiving, spending, accounting for, and auditing the public moneys. This act was extensively revised in 1931 to provide for certain administrative controls over expenditures. The Department of National Revenue Act provided in 1927 for the consolidation of the administrative units handling customs, excise taxes, and income taxes into a Department of National Revenue with a minister in charge. The Civil Service Act, first enacted in 1868 and subsequently revised several times, established a civil service agency to supervise the recruitment of personnel for the Dominion government. The Bank of Canada Act of 1934 provided for the incorporation of a central bank—the Bank of Canada—which stands today at the head of the banking system of the Dominion.

The Fiscal Framework of the Dominion

If one attempted to sketch on a chart the existing framework of the Dominion government's financial organization, it would appear as a kind of pyramidal structure. At the apex of this structure stands Parliament. It is this body that determines what moneys are to be raised for the support of the government and for what purposes they are to be spent. Incidentally, the two houses of Parliament do not exercise equal or concurrent authority in money matters. Under section 53 of the British North America Act, all bills imposing taxes or making appropriations must originate in the House of Commons. In practice Commons dominates the financial process as it relates to the consideration and authorization of the budget. Seldom, if ever, does the Senate play a conspicuous part in this process.

Once the taxes have been imposed and the appropriations have been made, the financial functions of Commons are not finished; it is the duty of this body to see that the taxes are collected and duly deposited in the public treasury, that all appropriations are expended for the purposes specified, and that a proper accounting is made for all moneys so collected and expended. To this end, two agencies—the Auditor General and the Committee on Public Accounts—have been set up to assist the Commons. These agencies will be described later in this chapter.

Next in authority to Parliament is the Cabinet, the executive com-

mittee of the House of Commons, legally referred to as the "Governor in Council." Sole responsibility for the conduct of the Dominion government rests upon the Cabinet, as in Great Britain. This responsibility can be readily enforced because of the intimate relationship that exists between the Cabinet and Parliament, which makes the executive body of the government responsive at all times to the wishes of the majority in the House of Commons. The Dominion Parliament is not in the position of having to deal with an independent executive, as is the case with the Congress of the United States. Moreover, the Dominion Cabinet can usually get speedy action from Parliament on its proposals. It does not face the delays in getting legislation enacted that ever and anon are the lot of the American President.

The important peacetime administrative agencies concerned with financial matters are the Treasury Board, the Department of Finance, the Bank of Canada, the Department of National Revenue, and the Civil Service Commission. The organization and general functions of these agencies are discussed in the following pages.

The Treasury Board

The large size of the Dominion Cabinet in the early days of federation probably influenced the creation of the Treasury Board in 1869, a small committee of six ministers, to which all matters on finance and personnel are referred. This board is closely associated with the Department of Finance, the Minister of Finance serving as its chairman, the Deputy Minister of Finance as its secretary, and the departmental staff as its expert advisers. Besides the Minister of Finance, the Minister of National Revenue and the Minister of Justice are usually members of the board, while the ministers in the other three positions vary from time to time. Following the change in government in 1935, for example, the Minister of Mines and Resources, the Minister of Trade and Commerce, and the Minister of Agriculture were members of the board.

It is said that the Treasury Board is intended to be a copy of the Board of Lords Commissioners of the Treasury of Great Britain, the main difference being that the Board of Lords Commissioners has long since ceased to be of any real importance in financial matters while the Treasury Board continues to be the key body in determining the Dominion's financial policy. The decisions of the Dominion Minister of Finance are tempered at all times by the views of his colleagues on the Treasury Board. Indeed, most of the important decisions concerning the finances of the Dominion and its personnel are arrived at jointly by the members of this board. Since these members are, in most cases, heads of big service departments of the government, spending large appropria-

tions for operation and maintenance, their decisions on the board are likely to be more or less influenced by their administrative positions. But this is not necessarily a drawback to sound planning; in fact, it seems to be a distinct aid. It is merely a question of when administrative influences are brought to bear on the ideas of the Minister of Finance, whether in the very early stages of his planning or later. In the end he must listen to all members of the Cabinet before his financial plans are presented to the House of Commons. The Treasury Board, it is true, sometimes necessitates early compromises in casting up plans, but this often has the effect of producing sounder conclusions in a shorter period. As a matter of fact, the Minister of Finance is generally helped rather than hampered in the development of his ideas by the other members of the Treasury Board. If he can enlist the support of his five colleagues on the board for his ideas, he usually has no trouble in convincing the other cabinet members. In this give-and-take process, he may not always have his own way; but after all it is the Cabinet, not simply the Minister of Finance, who must accept responsibility before the House of Commons and ultimately before the country's electorate for the financial policy of the Dominion.

Functions of the Treasury Board

The general functions of the Treasury Board, as set forth in section 10 of the Department of Finance and Treasury Board Act, are to serve as a committee of the Cabinet "on all matters relating to finance, revenue and expenditure, or public accounts" which the Cabinet refers to it or which it thinks expedient to call to the attention of the Cabinet; and it is given the power to require from any governmental department or officer "any account, return, statement, document, or information" which it deems requisite for the performance of its duties. Numerous specific powers are vested in the Treasury Board by certain statutes, such as the Consolidated Revenue and Audit Act, the Civil Service Act, and the Superannuation Act. An extensive list of these powers is to be found in the various sections of the Consolidated Revenue and Audit Act. This act provides, among other things, that the Treasury Board shall have the authority to prescribe the time for reporting and the form of revenue returns made by the collecting officers to the Auditor General (sec. 4); to recommend the method of destroying the cancelled securities of the Dominion (sec. 19); to direct a classification to be made of departmental expenditures (sec. 26); to prescribe checks or other instruments of disbursement (sec. 27); to approve balances of appropriations for the fulfillment of contracts, as certified by the Comptroller of the Treasury (sec. 29); to make rulings on accountable advances (sec. 32); to override

the decisions of the Comptroller of the Treasury on questions of expenditure (sec. 35); to approve the rules and regulations of the Auditor General for the conduct of his office and the rendering of accounts to him for examination (sec. 42); to direct the Auditor General to examine and audit any account before payment,[6] and then to override his objection to such payment (sec. 48); and to hear and pass upon appeals from departmental heads and other officers on the findings of the Auditor General (sec. 51).

Under other acts, the Treasury Board originates regulations bearing upon various administrative activities, particularly those dealing with personnel management. It participates in the review and revision of the estimates of expenditures before final approval is given by the Cabinet. It frequently has responsibility for the allocation of certain votes under provisions of the annual appropriation acts. All in all, this board exercises extensive fiscal powers, and in this connection it is called upon to promulgate numerous administrative regulations through the medium of so-called Treasury Board Minutes. These minutes ordinarily have the same weight and effect as Orders in Council, that is, administrative regulations issued by the Cabinet.

It is understood that the Treasury Board, acting in its capacity as a committee of the Cabinet, often relieves the latter body of many details of administration. For example, it handles through an expert staff in cooperation with the Civil Service Commission the determination of such matters as salary increases arising out of promotions or reclassifications, additional compensation for individual employees, exempt positions in the service, and number and rank of temporary employees. In the subsequent discussion more consideration will be given to the various functions of the Treasury Board.

The Department of Finance

The Department of Finance was established soon after federation—to be exact, in 1869—and the Minister of Finance was designated as its head. For a short period there was also a Receiver General, but his office was abolished in 1878 and his duties were assigned to the Minister of Finance. Thereafter the full title of the latter official became the Minister of Finance and Receiver General.

Aside from being the central figure in the Treasury Board, the Minister of Finance has many important duties and relations in the financial affairs of the present-day Dominion government. He is responsible not only for the safekeeping of all Dominion funds, but he is charged with maintaining a central accounting and control system covering all

[6] In practice, this preaudit has virtually disappeared. See below, pp. 140–41.

revenues and expenditures. He has direct contacts with all the spending departments of the government in the preparation of the budget, and also with all the provinces in the matter of subsidies and tax concessions. He selects the board of directors of the Bank of Canada, a government owned, noncommercial banking institution. At the same time he dominates the activities of several other governmental agencies. During the war period, he exerted great influence through the Foreign Exchange Control Board and the Wartime Prices and Trade Board, to mention only two of the several war agencies which he directed. By determining all direct tax measures and regulating foreign exchange, rationing, and basic prices, he touched every Canadian's pocketbook and life.

The actual administrative work of the Department of Finance is supervised by the Deputy Minister of Finance. This officer is chosen for his broad knowledge of governmental finance and related matters and for his ability as an administrator, since he is the continuing director of the department. The Minister of Finance concerns himself very little with the routine administration of the department; he is primarily a political officer and a member of Parliament, holding his position as Minister of Finance upon designation by the Prime Minister and only so long as he is in the Cabinet. The Deputy Minister, however, is in practice a permanent officer of the government, although he is appointed by the Governor in Council (the Cabinet) and holds office at the latter's pleasure. He is paid an annual salary of $17,500, which is only $500 less than that of the Minister (counting the latter's "motor car allowance," and including his sessional indemnity and extra compensation as a member of Parliament). The Deputy Minister is aided in the general administration of the department by three Assistant Deputy Ministers of Finance, who are also permanent officers. Prior to 1948 there had been only one Assistant Deputy Minister of Finance.

The general functions of the Department of Finance, as set forth in the Finance and Treasury Board Act creating the department, are declared to be the "supervision, control and direction of all matters relating to the financial affairs and public accounts, revenue and expenditure of Canada," which are not assigned by law or by Order in Council to other departments. These functions are amplified or restricted by several acts, notably, the Consolidated Revenue and Audit Act, the Bank Act, the Royal Canadian Mint Act, the Civil Service Superannuation Act, and the Bank of Canada Act. But even so, the various functions assigned to the Department of Finance are not as all-inclusive as those of the British Treasury, which comprehends virtually all of the important fiscal agencies of the government. The British Treasury has grouped around it, rather loosely it is true, but nevertheless under the control of the Chan-

cellor of the Exchequer, the offices which collect inland revenue, customs, and excise taxes, and also the Stationery Office. In Canada the collection of such revenues and taxes is under the control of the Minister of National Revenue, while the King's Printer and Controller of Stationery operates as a department separate and apart from the Minister of Finance. This arrangement, however, is entirely in keeping with the theory, developed in recent years, that the Department of Finance should free itself as far as possible of all fiscal activities and administrative routine not directly related to policy making and financial control.

The internal organization of the Department of Finance has assumed its present form largely through the gradual process of adding or transferring functions from time to time over the seventy and odd years that have transpired since the department came into existence, but more recently in harmony with the theory of what primary functions the department should perform in the financial field. The largest addition to the department, and undoubtedly the most important one in recent years, was the Office of the Comptroller of the Treasury established in 1931. Then in 1935 the Comptroller of the Currency, whose office had constituted for many years an important unit of the department, was transferred to the Bank of Canada. And in 1938 the Comptroller of Loans and Interest, another important office under the department, was also transferred to the Bank of Canada. In 1939, at the outbreak of the Second World War, the department had about a dozen units of widely varying sizes with a total personnel of approximately 1,150. Of this number, about 900 were employed in the Office of the Comptroller of the Treasury. Wartime duties, however, added such a tremendous volume of work to the Department of Finance that its regular staff had practically quadrupled by the end of the war. In addition it had a temporary staff of approximately 6,000 more employees. The peacetime offices, divisions, and branches of the Department of Finance are briefly described below.

Estimates and Treasury Board Division

The Estimates and Treasury Board Division is a small unit which serves as a staff agency to the Treasury Board in budgetary and personnel matters. The division is under the supervision of a Director of Estimates, though at times in the past it has operated directly under the Assistant Deputy Minister of Finance. The division collects the expenditure estimates from the various departments and establishments of the government, examines and correlates them, and submits them to the Minister of Finance and the Treasury Board for review and revision. When the revised estimates have had the Cabinet's approval, the division assembles, tabulates, and publishes them for the use of Parliament in con-

sidering the budget and in voting the appropriations. All personnel matters of the various departments clear through this division to the Treasury Board, and the decisions and regulations of the board are promulgated by the division.

Office of the Comptroller of the Treasury

The Comptroller of the Treasury, whose office was created in 1931, is appointed by the Governor in Council, and holds his position during good behavior. He is removable by the appointing authority only for misbehavior, incapacity, or failure to perform his duties; thus, for all practical purposes, his tenure of office is permanent. He is responsible directly to the Minister of Finance, hence administratively he is on the same footing as the Deputy Minister. He is required by law to retire at the age of 70. He receives an annual salary of $10,000, as an officer of the Department of Finance. The first incumbent of the office was formerly Assistant Deputy Minister of Finance, while the second and present incumbent was previously the first assistant to the Comptroller of the Treasury, which would indicate that full recognition has been given to the importance of having a Comptroller of the Treasury who is broadly experienced in the financial practices of the Dominion.

The primary reason for creating the Office of Comptroller of the Treasury, as stated in the law (sec. 21, Consolidated Revenue and Audit Act, 1931), was to enable the Cabinet to maintain "more complete control over the administration of the Consolidated Revenue Fund," into which all the revenues of the Dominion are paid. The duties of the office, therefore, relate almost entirely to the disbursement of moneys from this fund. The expenditures for all departments of the government are made through representatives of the Comptroller of the Treasury called "accounting officers," who are usually located in the various departments. At the same time, the expenditure accounting in the several operating departments is under the direction and supervision of the Comptroller.

As expenditure control officer of the Executive, the Comptroller of the Treasury has quite extensive powers. The moneys appropriated to the Crown, that is, to the Governor in Council (the Executive), by Parliament for the maintenance of the government may not be expended by the operating departments without first being released by the Comptroller through what are known as "issues." The Comptroller may withhold "issues," and he may also refuse payments to the departments. In either case, the departments may not proceed to make expenditures, except upon appeal to the Treasury Board, which alone can override the decisions of the Comptroller.

Prior to 1931, the "issue" of public moneys was made through a so-called "letter of credit," emanating from the Department of Finance and bearing the signatures of the Minister of Finance and the Auditor General. This method, followed almost from the time of federation, was found to be quite defective as the volume of the government's business increased. It therefore became one of the chief reasons for the creation of the Office of the Comptroller of the Treasury and the establishment of a new procedure for the control of expenditures. The propriety of this change will be discussed in a subsequent chapter.[7]

Accounts Branch

The Chief Dominion Bookkeeper, an officer under civil service, is in charge of the Accounts Branch. This branch is the central accounting office of the government. All revenue-collecting agencies of the Dominion report to it and transmit records of the receipts taken in by them. All expenditures made by the several departments are recorded by it. The blue book called *Public Accounts,* an annual report on the condition of the Dominion's finances, is very largely prepared by the Accounts Branch under the direction of the Deputy Minister of Finance. Through this branch, the Minister of Finance is kept continually in touch with the income and the outgo of the government.

The Accounts Branch has three major divisions of work. One division maintains the central accounting system and issues the periodic reports on the condition of finances. Another division provides for check adjustment: that is, it receives and examines all government checks which have been paid by the chartered banks and makes adjustment with these banks for all such payments. A third division administers the provisions of the Superannuation Acts and the Retirement Act for the employees of the Dominion.

The Royal Canadian Mint

Prior to 1908 the coins used in Canada were obtained from the Royal Mint in London or from The Mint, Birmingham, Ltd. On January 2, 1908, the Ottawa Mint was established as a branch of the Royal Mint. Then in 1931 the Ottawa Mint was taken over under the name of the Royal Canadian Mint, and has since been operated virtually as a self-contained branch of the Department of Finance. It is directed by an officer called the Master of the Mint.

In its earlier years the Mint of Canada confined its operations to the production of gold, silver, and bronze coins for domestic circulation, at the same time making British sovereigns and certain small coins struck

[7] See below, pp. 118–20.

under contract for Newfoundland and Jamaica. Gold coins, never in great demand in Canada, have been discontinued since 1919. The refining of gold has recently been the most important single activity of the Mint. This activity was started during the First World War, and has since grown to considerable proportions owing to the rapid development of the gold mining industry in Canada. Since the establishment in 1931 of the policy of prohibiting the export of gold, except under license, practically the entire gold production of the Dominion has been refined by the Mint and later exported through the Department of Finance and the Bank of Canada.

Other Departmental Units

The Tariff Division is a small unit at the head of which is the Commissioner of Tariff. This officer is the confidential adviser of the Minister of Finance and the Cabinet on the operation of the customs tariff. In this connection there is also a Tariff Board, the functions of which will be noted later in this chapter.

The Inspector General of Banks, whose office was created in 1924 as a result of the failure of the Home Bank of Canada, operates a bank inspection unit. He receives an annual salary of $15,000. He makes a yearly examination and inquiry into the affairs of each chartered bank of Canada. An assessment is levied against the assets of these banks to pay for the inspection.

The legal work of the Treasury Board and the Department of Finance is conducted by the Solicitor of the Treasury, assisted by a small staff. A government guarantee unit has supervision of the issue and redemption of securities guaranteed by the Dominion, such as the bonds of the Canadian National Railways. There are certain departmental services such as central files, messengers, and stationery and supplies. The Minister of Finance has a small secretarial staff, and so does the Deputy Minister of Finance.

Related Agencies and Services

The functions of the Tariff Board are closely related to the Department of Finance, and likewise to the Department of National Revenue. This board was established in 1931, superseding an Advisory Board on Tariff and Taxation organized in 1926. It has a chairman at $15,000 per year, two members at $10,000 each, and a secretary, all of whom are appointed by the Governor in Council. The board is required to investigate and report to the Minister of Finance on the effect of the tariff rates imposed upon the principal commodities imported into or produced in Canada. Tariff disabilities and the exploitation of consumers are also

considered. The board is empowered to hear and decide appeals from rulings made by the Department of National Revenue with respect to the fair market value of goods for duty purposes, erroneous appraisals, and the rate of duty applicable to any class of goods. The board has also served as a Dominion Trade and Industry Commission, charged with the investigation of unfair trade practices and violation of commodity standards. During the war years, the staff of the board was almost completely engaged in the work of the Oils and Fats Administration of the Wartime Prices and Trade Board.

At the present time, the Dominion's printing is done by the Department of Printing and Stationery, which was organized in 1887. It is under the direction of the King's Printer and Controller of Stationery, who is quite independent of the Department of Finance. Hence the service of printing and stationery in Canada, as in the United States, is placed in the hands of an operating agency which is interested not in economy so much as in the volume of work done.

Under the Dominion government, procurement—the purchase of supplies, materials, and equipment for governmental use—is left to the various operating departments. Little or no attempt has yet been made to centralize the direction of this service at Ottawa. The large departments, such as Transport, Mines and Resources, and Public Works, maintain separate staffs to do their buying and to control their stores. During World War II the Department of Munitions and Supply purchased all war supplies for the Dominion government and for the British government in Canada.

The Bank of Canada

The Bank of Canada, now a vital part of the Dominion's financial system, was created in 1934, and commenced to do business on March 11, 1935. Prior to the establishment of this central bank, the chartered banks of Canada operated satisfactorily in normal times, for considerable periods, almost without control; they were able in the course of their operations to provide credit expansion, but they seemed unable to reverse the process. Fortunately, the Dominion's banking system was strong enough to weather the economic storms during the critical years of the depression, mainly because it consisted of only ten chartered banks with a large number of branches—more than three thousand in all. But such machinery for banking control as existed prior to 1935 lagged behind that of most other countries.[8] Certain steps, however, had already been taken toward unified control. In 1908 the banks were given the

[8] This was the opinion of the Macmillan Commission as expressed in its comprehensive report on the banking and currency situation in Canada made in 1933.

excess circulation privilege (the right to issue bank notes during a certain part of the year up to 15 per cent of the bank's combined capital and reserve funds) to enable them to meet recurring seasonal demands for currency. Then in 1913 the authorization of central gold reserves made it possible for any bank to increase its note issue at any time through the deposit of gold or Dominion notes in a central fund at Montreal under the supervision of three trustees. But this arrangement failed to provide the same flexibility as a central bank. The Finance Act of 1914, reenacted in 1923, set up a method of performing one important service of a central bank, namely, "rediscounting" (or turning into cash) certain paper or securities held by member banks, but it overlooked the equally important service of contraction. In 1933 the Macmillan Commission, after a thorough study of the banking practices of Canada in relation to its economic needs, recommended the establishment of a central bank. The Commission's recommendations were accepted by Parliament and two years later the Bank of Canada was in operation.

At first, the capital of the Bank of Canada was $5,000,000, divided into shares of $50 each par value. These shares were offered for public subscription by the Minister of Finance on September 17, 1934, and were largely oversubscribed. The maximum allotment to any one individual or corporation was 15 shares, which could be held only by British subjects or domestic corporations. The directors and officers of the chartered banks were not permitted to hold any shares. In 1936 the capitalization of the Bank was increased to $10,100,000 by the sale of $5,100,000 Class "B" shares to the Minister of Finance, thus giving the Dominion government control of the capital stock. The shares of the original shareholders were then designated as Class "A." This arrangement continued until the summer of 1938, when the Liberal Government decided on complete ownership of the Bank. It purchased the stock held by private individuals and corporations at the market price, $59.20, for each $50 share, at the same time reducing the capital stock to $5,000,000 or 100,000 shares valued at $50 a share, all held by the Minister of Finance.

The Bank has its headquarters at Ottawa, with an agency in each province. It is managed by a Governor, assisted by a Deputy Governor and an Assistant Deputy Governor. These officers are appointed for seven-year terms by the directors of the Bank with the approval of the Governor in Council. The Board of Directors consists of the Governor of the Bank, who acts as chairman, the Deputy Governor, the Assistant Deputy Governor, and eleven directors. The directors are appointed by the Minister of Finance, with the approval of the Governor in Council, for overlapping terms of three years. An Executive Committee of the Board of Directors, consisting of the Governor, the Deputy Governor,

and a member of the board, exercises the same powers as the board, but its decisions must be approved by the board. The Deputy Minister of Finance is ex officio a member of the Board of Directors and of the Executive Committee, but without a vote.

The Bank is required to pay cumulative dividends of 4½ per cent a year on the paid-up capital out of its profits after making such provisions as the Board of Directors may think proper for bad debts, depreciation of assets, pension funds, and similar things. The remainder of the profits are paid into the Consolidated Revenue Fund of Canada and the Rest Fund (reserve fund) of the Bank in certain proportions until such time as the Rest Fund is equal to twice the paid-up capital, when all the remaining profits are paid into the Consolidated Revenue Fund.[9]

The Bank may deal in short-term securities of the Dominion, the provinces, the United Kingdom, and the United States. It may buy and sell certain classes of commercial paper of limited circulation. It may make loans for periods of six months to chartered banks and Quebec savings banks on certain classes of collateral, and it may also make advances to the Dominion or any provincial government for a specified time in amounts not exceeding a fixed proportion of such government's revenue. It may buy and sell coins and gold and silver bullion, and may deal in foreign exchange.

The Bank is required to maintain a reserve of gold equal to not less than 25 per cent of its total note and deposit liabilities in Canada. At the same time, the chartered banks are required to maintain a reserve of not less than 5 per cent of their deposit liabilities within Canada in the form of deposits with, and notes of, the Bank of Canada.

A function of the Bank, perhaps the most important of all its functions, is the control of credit and currency. It attains this control by virtue of being a bankers' bank, and at the same time the government's bank. It can exercise a regulative influence over the total purchasing media of the country because it controls directly the reserves of the commercial banks. It accomplishes this purpose through "open market" operations, or by changes in the bank rate, or both—the common devices employed by central banks. At the time the Bank was established, the Comptroller of the Currency and his staff were transferred to it from the Department of Finance. Through this officer the Bank now supervises the issue and redemption of Bank of Canada notes and subsidiary coins.

[9] At the end of the calendar year 1944 the Rest Fund of the Bank reached $10,050,366.82, a figure that was more than twice the paid-up capital, so that thereafter all profits of the Bank go into the Consolidated Revenue Fund. Profits for the calendar year 1944 were over $20,000,000.

Another function of the Bank is to serve as a source of skilled financial advice for the Dominion government. It acts as the banker and fiscal agent of the government, and issues it securities. It may also act in a similar capacity, upon agreement, for any one of the provincial governments. The fact that the Bank does not compete with commercial institutions for profit, and has no sectional interests to serve, places it in a very favorable position to perform this function.

When the entire administration of the Dominion debt was turned over to the Bank on March 29, 1938, the Comptroller of Loans and Interest and his staff were transferred from the Department of Finance to the Bank. This officer and his staff, when under the Department of Finance, had charge of the routine issue, transfer, and redemption of government bonds, with the payment of interest thereon. Since the organizational change, these functions have been continued substantially as before. The staff, however, has been severed from the civil service and has become a part of the general staff of the Bank, under the control of its Executive Committee and Board of Directors.

Department of National Revenue

The Department of National Revenue was created in 1927. Prior to that time, there had been several organizational arrangements for the collection of Dominion revenues. At the time of federation, according to Bourinot,[10] two ministries were established to handle revenues, one for customs and the other for inland revenue. Twenty years later, or in 1887, Parliament set up a Department of Trade and Commerce, which had supervision over the departments of Customs and Inland Revenue. A Controller of Customs and a Controller of Inland Revenue were put in charge of these departments under the general instructions of the Minister of Trade and Commerce. This arrangement was an attempt to copy the British system of under-secretaries—officials who belonged to the Government, but were not in the Cabinet. In 1892, the new controllers went back to their constituencies for reelection, just as the ministers were accustomed to do. But they continued to occupy subordinate positions for only a short time, since in 1895 they were made members of the Cabinet. When Laurier's Government came into office in 1896, the act relating to the controllers was repealed and the old departments of Customs and Inland Revenue were restored to their former legal status, headed by the two ministers. These departments continued to operate as separate units until 1918, when they were brought under one minister by Order in Council, and the Department of Customs and Inland

[10] Sir John Bourinot, *A Manual of the Constitutional History of Canada from the Earliest Period to 1901* (1901), pp. 56–57.

Revenue was created. This consolidation, however, was largely nominal; it was not until 1921, when the Department of Customs and Excise was established, that there was an approach to a complete amalgamation. Before that time a Commissioner of Taxation, whose office was attached to the Department of Finance, had been appointed to administer the business profits tax of 1916 and the income tax of 1917. In 1924, this office was transferred from the Department of Finance to the Department of Customs and Excise, where it was set up practically as a separate entity.

By 1926, there were persistent rumors of maladministration and corruption in the Department of Customs and Excise, particularly in the handling of the customs duties. A special committee of the House of Commons was appointed to investigate the department. After a few months, the committee reported that it had been able to bring to light only a part of the illegal practices being used, but that these indicated that smuggling was being conducted on an extensive scale. The House of Commons thereupon resolved that a judge should be appointed to continue the investigation and to prosecute all offenders. Shortly thereafter, a special commission was named by Order in Council, later known as the Royal Commission on Customs and Excise, to study administrative practices in relation to customs and excise taxes and to recommend a reorganization of the departmental structure. This Commission secured the accountancy firm of Clarkson, Gordon and Dilworth to do the auditing and accounting work in connection with the study. Before the study was completed an act was passed by Parliament setting up the Department of National Revenue, presumably in accordance with the Commission's ideas of organization at the time. The final report of the Commission, made on October 15, 1927, contained recommendations for improved methods of administration, particularly in handling customs and in preventing smuggling and revenue frauds from undervaluation. The Minister of National Revenue retained Clarkson, Gordon and Dilworth to make a detailed survey of the new Department of National Revenue and to recommend changes in its internal organization and methods. This survey was completed and a report on its findings and recommendations published early in 1928.[11] This report gave a detailed account of the internal organization and administrative procedures of the Customs and Excise divisions, with numerous recommendations for improvements, but it excluded the Income Tax Division.

The Department of National Revenue, as now organized under the Act of 1927 and subsequent amendments, consists of three principal

[11] *Report of Messrs. Clarkson, Gordon & Dilworth Respecting Reorganization of the Department of National Revenue*, February 9, 1928.

divisions: namely, the Customs Division, the Excise Division, and the Taxation (Income Tax) Division. The Minister of National Revenue is the political head of the department, which unlike most of the other major departments of the government now has two deputy ministers. Prior to the creation of the deputy ministers in 1943, there were three commissioners, one at the head of each division. Now one deputy minister (salary, $12,000) has charge of the Customs and Excise divisions, while the other (salary, $15,000) has control of the Taxation (Income Tax) Division. There are three assistant deputy ministers, one each for Customs, Excise, and Taxation. The appraisers, inspectors, and investigators in the Customs and Excise divisions are selected under civil service regulations. All positions under the Taxation (Income Tax) Division, however, are exempted from civil service requirements and regulations. This exemption, while it opens the way for political abuses, is intended to improve the administration of the division by allowing the Deputy Minister of Taxation greater freedom and flexibility in handling his personnel. When the Taxation (Income Tax) Division was first established, its personnel was exempted from civil service because the income tax was then regarded as a temporary measure for World War I purposes. But now no one doubts, after more than thirty years, that the income tax has come to stay.

The work of the Customs and Excise divisions has been fairly well integrated during the period since 1927, but the Taxation (Income Tax) Division still operates practically as if it were a separate department. The administration of the Taxation Division, both at Ottawa and in the various tax districts, is completely separated from the Customs and Excise divisions, and rightly so in the opinion of those who direct the work. The revenues collected by the Taxation Division are kept apart from the customs and excise taxes and are reported directly to the Minister of Finance.

Customs and Excise Divisions

The Customs Division is responsible for the administration of the Customs Act and the Customs Tariff Act. It functions through the headquarters at Ottawa and more than 150 ports, 175 outports, and 60 preventive stations. The ports are used for excise purposes as well as for customs. The personnel of the ports, outports, and preventive stations numbers about 4,000, which includes both customs and excise officers and employees. About 1,000 officers and employees are at the headquarters of the two divisions in Ottawa, making a total personnel for both customs and excise of approximately 5,000.

The Excise Division administers the Excise Act, previously known as

the Inland Revenue Act, and certain parts of the Special War Revenue Act. The Excise Act provides for duties on spirits, malt, malt liquor, and tobacco and its products. The parts of the Special War Revenue Act administered by the division provide for sales and excise taxes on certain commodities and transactions. The two acts are administered separately, the excise duty being collected through the ports and bonded establishments, and the excise tax, as it is called, being collected through a field staff attached to the headquarters office.

In the internal organization of the Customs and Excise divisions, certain units belong exclusively to one or the other division, while other units are operated in common by the two divisions. An Accounts Branch, under the direction of the Comptroller of the Treasury, serves both divisions, recording collections, issuing checks for departmental salaries and expenses, and reporting to the Minister of Finance and to the Auditor General.

Taxation Division

The Taxation (Income Tax) Division has the administration of the taxes imposed by the Income War Tax Act of 1917, as amended since that time. It also administers the Excess Profits Tax Act and the new Dominion Succession Duties Act. Until 1921, it collected the business profits war tax of World War I, which was imposed in 1916 and discontinued in 1921.

The central administration of the income tax is at Ottawa, completely separated, as we have said, from the other two divisions of the Department of National Revenue. The field administration is carried on through taxation districts, the Dominion being divided into nineteen such districts of widely varying areas and shapes. At the head of each district is an inspector of taxes, assisted by a staff of assessors, clerks, and other help. These inspectors are required to maintain the rolls and to take care of the returns and assessments of income taxes for the Dominion and (before 1941) for four of the provinces. They collect, in addition to the income tax, the excess profits tax and the succession duty for the Dominion, keeping the necessary accounts and making the required investigations. They report to the Deputy Minister of Taxation at Ottawa.

To carry on its work, the Taxation Division has a staff of approximately 7,500 officers and employees. The cost of administration of the income tax from 1917 to 1939 averaged around 3 per cent of the amount collected, the 1939 cost being about 1.9 per cent. This cost is now much lower—less than 1 per cent—owing to the larger volume of taxes resulting from wartime financing.

The Civil Service Commission

The Dominion civil service has had a checkered history. It has been subjected to numerous investigations by royal commissions and select committees, and has undergone at least three complete reorganizations since 1867. The first Canadian Civil Service Act, passed in 1868, was modeled to a large extent on the statute which had previously been in effect in the Province of Canada. Under the operation of this act, political patronage is said to have dominated the Dominion service. An attempt to reform this situation was made by the act of 1882, which set up a permanent board of examiners to give qualifying tests for positions, especially for the so-called "inside" service located at Ottawa. But this procedure seemed to have placed very little restraint on political patronage. A dismal picture of the Dominion administration, "choked with misfits and superfluous clerks," was presented by a Commission of Inquiry in 1907.

Not until 1908 was a successful attempt made to eliminate political patronage from the Dominion service. The Civil Service Amendment Act of 1908 set up a permanent Civil Service Commission of two men appointed by the Governor in Council, holding office during good behavior, and removable only by the Governor General on a joint address of both houses of Parliament. This act prescribed competitive examinations of candidates for the "inside" service, and qualifying examinations of those for the "outside," or field, service. Incidentally, a third member was added to the Civil Service Commission in 1917.

By the end of the First World War, the civil service was pretty well demoralized; five years of war had increased the number of civil servants from 37,000 to 60,000. The "outside" service was again subjected to patronage inroads. Then came the reform of 1918, which required all vacancies in the "outside" service to be filled, like those in the "inside" service, by competitive examination. But this requirement, it is understood, did not entirely uproot political patronage in the Dominion service.

The present Civil Service Commission had its beginning in 1908, when it consisted of two, and later of three, members. The members, as already stated, were appointed for life by the Governor in Council, and were removable from office only by the Governor General on address of the Senate and the House of Commons. In 1918 the tenure of the members was changed to a term of ten years, with compulsory retirement at the age of 65. The members now have the rank of deputy ministers and they enjoy approximately the same independence as judges. Their tenure of office is sufficiently long to provide continuity in their work and to

absolve them of any direct responsibility to the party in power. Indeed, the party affiliations of the members are supposed to be dropped on appointment, and they are required to be strictly nonpartisan in their work. The chairman of the Commission receives an annual salary of $10,000, and the other two members $8,000 each. The Commission has a secretary and a staff of about 500 officers and employees. The main functions of the Commission are to determine the qualifications of candidates for admission to, and transfer and promotion in, the Dominion civil service; to investigate the workings of the Civil Service Act and any violations of its provisions; and to assist the departments in improving their organization, in eliminating superfluous employees, and in reducing salary costs. All recommendations of the Commission with regard to organization, classification, and compensation of officers and employees are adopted only with the concurrence of the minister of the department concerned and with the approval of the Treasury Board.[12]

But this does not mean that the ministers are inclined to sabotage the Civil Service Act. Essentially, the purpose of the act was to relieve the ministers and the members of Parliament of the task of finding jobs for a large number of people. The tendency, therefore, is for the ministers to seek to extend the act rather than to curtail its application. For example, certain of the war departments were created under statutes which provided that appointments might be made by the minister in charge, subject to the rates of pay being approved by the Governor in Council. Notwithstanding these provisions, the Government passed a general Order in Council to the effect that such appointments would be made upon the recommendation of the Civil Service Commission.

The Civil Service Act is closely allied to the Superannuation Act. The two in combination mean a career government service. Resignations from the service, except for marriage, are comparatively rare, and dismissals, except for misconduct, are infrequent. The peacetime turnover in most of the departments is only from 2 to 3 per cent annually. No civil servant may take an active part in politics, and so a change of government means little or nothing to the rank and file of the civil service. Such dismissals as then take place are almost invariably the consequence of the personal acts of those involved. Aside from the ministers who head the government departments, all persons on the staffs of these departments (with a few exceptions) are in the civil service. Although the ministers come and go, the departmental staffs remain practically unchanged over many years. Thus, in the end, the quality and character of the Dominion's administration actually depends upon this permanent body of civil servants.

[12] See above, Estimates and Treasury Board Division, p. 39.

The effect of World War II upon the Dominion civil service has been tremendous. The number of officers and employees rose from about 57,000 in 1939 to 147,000 in 1946, and the yearly pay roll approximated $240,000,000 on the latter date. But this number did not include 105,000 employees of the Canadian National Railways, 1,000 of the Canadian Broadcasting Corporation, 1,000 of the Trans-Canada Air Lines, and 1,200 of the Bank of Canada.

In weeding out obsolete and ill-considered activities of government during peacetime, the Royal Commission on Dominion-Provincial Relations suggested that the organization branch of the Civil Service Commission might be strengthened and extended, so that it could report on all existing and proposed administrative machinery and personnel. But the Royal Commission observed that the Civil Service Commission was not in a position to criticize policy in public expenditure; all it could do was to see that the appropriations were spent through an efficient organization. So the Royal Commission suggested that, since "critical appraisal of policy can be made only by representatives of the people," a special committee of the House of Commons should be set up for the purpose of making this appraisal looking toward "periodic reconstruction of all branches and departments of the government." The Commission felt that "Instead of being permitted to coast along on its momentum in grooves worn smooth by custom, every branch and project of government should at intervals be called upon to justify its cost in terms of value to society." Only in some such way, the Commission maintained, "can the operations of government be kept free from deadwood and duplication." [13]

The Auditor General

The Office of Auditor General was established by the Consolidated Revenue and Audit Act of 1878.[14] It was modeled after the British Exchequer and Audit Department, created by Gladstone in 1866 and presided over by the Comptroller and Auditor General. The Office was set up, according to the words of the Act, "for the more complete examination of the accounts of Canada, and for the reporting thereon to the House of Commons." The duties of the Auditor General, as set forth in the Act, remained practically unchanged until the Act was revised

[13] *Report,* Book II, p. 183.

[14] An interesting bit of history in connection with the Auditor General's Office makes it the successor of the Audit Office established in 1855 in the Province of Canada. The British North America Act provided for the continuation of the audit until the Dominion Parliament acted. The first Dominion act, passed in 1867, was based on the provincial statute, so that it was not until 1878 that the Office of Auditor General was set up.

in 1931. At that time, the Auditor General was relieved of responsibility over the administration of revenues and expenditures and his auditing authority was considerably broadened. His powers were therefore brought more closely into line with those of the British Auditor General.

The Governor General, according to the statute, "may . . . appoint an officer, under the Great Seal of Canada, to be called the 'Auditor General of Canada' . . ." This provision has been interpreted to mean that the Auditor General is an officer of Parliament, answerable to Parliament alone and independent of the Government of the day, although he is actually appointed by the Governor in Council. He holds office during good behavior, and can only be removed by the Governor General on address of the Senate and the House of Commons. He must retire at the age of 70 years, and is subject to the provisions of the Civil Service Superannuation Act except as to his tenure of office. His salary is fixed by statute at $15,000 per year. It was originally $4,000 a year, later increased to $5,000, and was fixed at the present figure in 1931.[15]

The previous incumbent of the office, Georges Gonthier, was for many years a professional accountant in Montreal before he received the appointment as Auditor General in 1924. He was appointed to the office when 55 years of age, and therefore had a little more than 15 years to serve before his retirement in November, 1939. He was succeeded early in 1940 by Watson Sellar, Comptroller of the Treasury at that time, and formerly Assistant Deputy Minister of Finance. Mr. Sellar is perhaps the first career government service man to hold the position. By having an intimate knowledge of the accounting functions of the Department of Finance, he has been able to coordinate these functions to an unusual degree with the work of his own office. At the same time he has reformed the auditing and reporting procedures of his office almost completely, even under the extra load of wartime duties.

The Auditor General's staff consists of an Assistant Auditor General, seven audit supervisors, and approximately 175 auditors, accountants, clerks, and stenographers. These officers and employees are recruited and promoted under civil service regulations. The Auditor General, however, is given statutory authority to suspend any officer or employee in his office.

The functions of the Auditor General, which will be discussed at length in Chapter VI, are concerned mainly with the postauditing of revenues, expenditures, and accounts. Under various provisions of the

[15] Actually, the Auditor General had received $15,000 a year since the appointment in 1924 of Georges Gonthier, $5,000 authorized by statute and $10,000 voted in the annual appropriation act.

Consolidated Revenue and Audit Act of 1931, the Auditor General is required to satisfy himself that the Dominion revenues are being fully accounted for, and to examine, at his discretion, the accounts of all persons employed in collecting and managing such revenues. He must examine, periodically, the accounts of all branches of the public service, and take such further steps as he may deem necessary to satisfy himself that such accounts are being faithfully and properly kept and that the moneys expended have been applied to the purposes for which they were granted. He must also examine and audit the central accounts of Canada maintained by the Department of Finance, and for that purpose statements with respect to such accounts must be prepared in such form as he may desire, and by such persons as the Minister of Finance may direct. Together with the Deputy Minister of Finance, he is required to examine and cancel all redeemed securities which represent the debt of Canada. When directed by the Governor in Council upon recommendation of the Treasury Board, he may audit the accounts of any branch of the public service before payment. Only in such cases (which seldom occur) may he preaudit the accounts, and his objection to any payment may then be overruled by the Treasury Board. He is therefore properly without any authority for the final settlement of accounts.

Even in the matter of postauditing, the Treasury Board is the judge of whatever objections the Auditor General may make to the issue of public moneys out of the Consolidated Revenue Fund. This board may sustain or overrule these objections as it sees fit. The Auditor General may then present his findings, including any overrulings, in the annual report which he submits to the House of Commons. But no systematic effort is made by the House to act upon the criticisms or to utilize the information presented in this report. While the House has a Public Accounts Committee, it seldom meets and rarely considers the audits, criticisms, and suggestions of the Auditor General. The value of the postauditing work is therefore greatly lessened from a parliamentary standpoint.

The Public Accounts Committee

When the House of Commons met for the first time after federation, it appointed a Committee on Public Accounts, as one of its several select standing committees. This committee was copied in name, at least, from the British committee of the same title, and it was given the function of reviewing the public accounts. But the Canadian committee now consists of a great many more members than its British counterpart, and its business is not conducted by a chairman of the Opposition party.

The British Public Accounts Committee has fifteen members, the

chairman and often other members being chosen from the opposition ranks. This arrangement has been made on the theory that the Opposition not only has a right to investigate expenditures but that, as the critic of the Government, it is in the best position to conduct an effective inquiry into the management of the public finances. The members of the British committee usually have wide financial experience, the chairman often being a former Financial Secretary of the Treasury.

The Dominion Committee on Public Accounts, on the other hand, usually consists of fifty members. At times its membership has run as high as eighty. Consequently the committee is a large and unwieldy group, so much so that the quorum has been fixed at only fifteen members. It is almost impossible to get the whole committee together at one time, in view of the numerous other duties which must be performed by members of Parliament. The majority of the members of this committee, including the chairman, are supporters of the Government in power at the time. Indeed, the committee often includes several of the ministers, one of whom has occasionally been the chairman. Under this arrangement, it it not difficult to understand why the committee has been criticized on numerous occasions for taking a partisan attitude when the majority seemed to obstruct rather than to assist the opposition members in making a real investigation.

The comparative infrequency of the meetings held by the Dominion Public Accounts Committee is another of its shortcomings. In a speech before the House of Commons in 1941 on the control of expenditures, M. J. Coldwell, leader of the CCF party, said: [16]

> Except when some particular problem has arisen our Public Accounts Committee has seldom met. I read again in Durell [17] that the British Public Accounts Committee exercises great influence over all the departments of government. Here it has exercised no influence, because it has seldom met. How many members of the House know how the appropriations made last May have been spent? I venture to say none except the members of the Government, and someone suggests that probably they do not know either. In any event this House has no information of the sort it ought to have regarding these expenditures. Questions placed on the order paper in the early part of this session last November asking for statements with regard to government expenditures, particularly in relation to contracts, brought forth replies that can be summarized in these words: "not in the public interest." It seems to me that if we are to have a war effort that will win the imagination and support of the vast majority of the people of Canada, and if we are to ask them to subscribe money to various war loans and to pay heavy taxes, we have an obligation to those people to see that the money is properly spent.

[16] *House of Commons Debates,* February 19, 1941, p. 920.

[17] A. J. V. Durell, *The Principles and Practices of the System of Control over Parliamentary Grants.* Mr. Coldwell had already quoted Durell in his speech.

Mr. Coldwell then quoted Gladstone in the British House of Commons to the effect that "It is undoubtedly the business of the House of Commons to be responsible not only for the inception of all public expenditure, but also to follow the money raised by taxation until the last farthing is accounted for." He then asserted that the Dominion House of Commons has the same agencies as the British Commons, namely, the Auditor General and the Public Accounts Committee, and inferred that the failure of the machinery of parliamentary control to function in Canada was due to the Public Accounts Committee, more especially perhaps to the attitude of the House towards this committee.

It appears that while the Dominion Public Accounts Committee has been regularly appointed, it has actually met only on rare occasions when the House of Commons had some matter to refer to it for examination. It met in 1939, for example, to consider certain aspects of the Bren machine gun contract, upon which it later reported to the House. This report was widely criticized for what were claimed to be partisan findings. For about ten years prior to that time, the committee seems to have had no assignments from the House, and there is no record that it ever met to consider the Auditor General's report, which was annually referred to it. In 1929 the House referred certain accounts to the committee for its examination. At the 1924–25 session of the House, the committee sat to investigate the methods of assessment and collection of income and business profits taxes. In the early postwar years, following World War I, it met on several occasions to investigate the accounts covering war and demobilization expenditures. One must go back as far as 1908 to find any useful suggestions emanating from the committee on the accounting and reporting of the Dominion, and these suggestions came from a small subcommittee after prolonged sittings. It is difficult, therefore, to agree with the contention of some Canadian authorities that the committee, in spite of its inactivity, has a restraining influence on improper expenditures and poor administration.

Special Committee on War Expenditures

Largely because of the failure of the Public Accounts Committee to examine and report on expenditures currently, the Leader of the Opposition, R. B. Hanson, suggested to the House of Commons on December 3, 1940, that a special committee should be set up to examine war expenditures.[18] After pondering this suggestion for several weeks, Prime Minister Mackenzie King moved in the House on March 4, 1941, to appoint a select committee "to examine the expenditure defrayed out of moneys provided by Parliament for the defense services, and for other services

[18] *House of Commons Debates,* December 3, 1940, p. 674.

directly connected with the war, and to report what, if any, economies consistent with the execution of the policy decided by the government may be effected therein." It was proposed that the committee would consist of twenty-four members, who were named in the resolution, "with power to send for persons, papers and records; to examine witnesses and to report from time to time to the House." Mr. King maintained that the proposed committee was quite similar to the one set up by the British House of Commons at the very outbreak of World War II to examine expenditures for war purposes before the report of the Auditor General had had time to reach the Public Accounts Committee. But some questioning during the debate in the House brought out the fact that eighteen members of the proposed committee belonged to the Liberal party, while of the other six members four were Conservatives and one each was from the Cooperative Commonwealth Federation and the Social Credit groups. Thus the minority parties in the House were given only one-fourth of the total membership of the committee. Some members of the Opposition, during the two days of debate on the resolution, expressed disappointment at this allotment of the membership.

The resolution was passed on March 5, and the committee was set up with a member of the Government's party as chairman. The committee was organized into several subcommittees to consider expenditures for the army, navy, air force, home defense, and so on. The meetings of the subcommittees were held in camera, and not all the meetings of the main committee were public. Three reports were submitted by the committee to the House of Commons before it adjourned on June 14, 1941. The last of these reports occasioned a lengthy debate on June 10, when the chairman asked permission to have the committee sit after the House adjourned until it met again in November.

During this debate, a Conservative member of the committee, H. C. Green, said that "this war expenditures committee has proved to be part of the Canadian Parliament which is functioning on party lines, and that the committee has reflected in its actions the attitude of this Parliament, which is dominated by party politics." [19] Mr. Green went on to say:

> That situation was made much worse by the fact that the Government loaded the committee with Government supporters. We understood that there would be a committee of fifteen, of whom nine would be Government supporters and six members of the Opposition. Instead, we got a committee of twenty-four, with eighteen Government supporters, twice the original number, and only six supporters of the opposition parties. In other words, there was a loading of the committee to the extent of three Government supporters to one opposition supporter. That alone made it impossible for this committee to carry on as members of this House had hoped it would; and, further, it meant that the

[19] *House of Commons Debates,* June 10, 1941, p. 4047.

subcommittees which were eventually set up were also overwhelmingly composed of supporters of the Government. No more than two opposition members were on any subcommittee.

Later in his speech Mr. Green declared that if changes were not made in the set-up of the committee, it would "do more harm than good." He concluded by saying:

> I do not wish to condemn without suggesting a remedy. For that reason I suggest that if this committee is to sit during the summer, the number should be cut in half. That is, it should be cut from twenty-four to twelve members, and there should be equal division; that is, five members from the Government side and five from the opposition parties, with the chairman and vice-chairman from the Government group. That would give a total of seven Government members to five in the opposition groups. I suggest that this business of sitting in secret should be at least greatly reduced. Meetings should be held in public, except in those instances where public meetings would give aid to the enemy. In such event they should be kept secret. Even then, the committee could not be expected to do as good work as the British committee has done because, as I have said, the Canadian Parliament is carrying on along strictly party lines, and because we started so much later. The committee, however, would have far more chance of succeeding than it has had to date, and I believe it might be able to do a great deal of good for this nation in these very trying times.

This forthright discussion and criticism of the war expenditures committee would seem to give a clue to what has paralyzed for many years the efforts of the Dominion Public Accounts Committee. Although the war committee was reconstituted and continued during the 1942, 1943, and 1944 sessions of Parliament, it was not apparent that it succeeded at its job any better than the old one. It was accused of partisanship on various occasions because of its composition and the anxiety displayed by its Liberal party members in defending the political virtue of the Government.

Chapter III

HOW THE DOMINION'S BUDGET IS FORMULATED

IN CANADA, as in Great Britain, financial administration begins and ends with the budget, each fiscal year constituting a complete cycle of operations. The budget, according to British practice, is both a plan and a procedure, and as such vitally interwoven with the machinery and processes of the government. As a plan, the budget displays in balanced form the revenue and expenditure requirements of the government for the fiscal year. As a procedure, it involves four definite and successive stages: namely, (1) the preparation of the estimates and the framing of the financial plan, (2) the authorization or voting of the plan, (3) the carrying out of the plan as authorized, and (4) the audit and review of the resulting financial operations. British practice has also determined what governmental authority is essentially responsible for each successive stage: the Executive (the Cabinet) must attend to the formulation and to the execution of the budget, while Parliament must see to the authorization of the budget and to the audit and review of the financial records.

Budgetary practice in the Dominion of Canada follows in the main British precedents, such variations as are found in it being due largely to constitutional provisions and usages or to local conditions and developments. The Dominion Cabinet is responsible for the formulation of the budget, which is presented to the House of Commons by the Minister of Finance. Responsibility for the execution of the budget in the Dominion also rests upon the Executive, which is much better equipped since 1931 than formerly for the exercise of current budgetary control. For the authorization of the budget and the enforcement of financial accountability—the two remaining stages of budgetary procedure—the Dominion House of Commons is essentially responsible. In providing revenues and in granting appropriations the House follows in the main British practice, but in the enforcement of accountability for financial

acts on the part of the Executive it falls short of attaining some of the advantages of the British system. Parliamentary procedure and control with respect to the budget will be discussed at some length in Chapters IV and VI. The formulation of the budget will be treated in this chapter, and its execution in Chapter V.

The Dominion's financial plan, as presented to the House of Commons, consists of several documents. They are (1) the detailed expenditure estimates of the various departments and agencies, which are ordinarily sent to Commons in February or March before the opening of the fiscal year to which the budget relates; (2) the budget speech which the Minister of Finance makes to Commons when presenting the budget, usually before the opening of the fiscal year or shortly thereafter; and (3) the budget resolutions and bills—the resolutions to be acted upon immediately after the conclusion of the budget speech and the revenue and appropriation bills to be drafted some time later for the approval of Commons. One document, the "financial statement," or budget summary, conspicuous in British budgetary practice, does not appear in the same form among the Dominion's budget documents. This statement, an exceedingly useful summary of only a few pages, is placed before the British House of Commons by the Chancellor of the Exchequer at the time of making the budget speech, that is, "when opening the budget." The summary financial tables recently presented by the Dominion Minister of Finance in connection with his budget speech, while not exactly comparable, are a fairly good approach to the British statement.

The Expenditure Estimates

In accordance with British budgetary practice, every appropriation passed by the Dominion House of Commons must be based upon an estimate and a recommendation made to it by the Executive. Section 54 of the British North America Act imposes this requirement in the following language: "It shall not be lawful for the House of Commons to adopt or pass any vote, resolution, address, or bill for the appropriation of any part of the public revenue, or of any tax or impost, to any purpose that has not been first recommended to that House by message of the Governor General in the session in which such vote, resolution, address, or bill is proposed." In other words, the parliamentary power to grant supply carries with it the necessity for the Cabinet to bring regularly before the House of Commons formal estimates of all proposed expenditures. These estimates are detailed statements of the probable cost of each service, function, or activity for which a parliamentary grant or appropriation is requested or required.

During the autumn of each year, the Minister of Finance asks the

various departments and agencies of the government by letter to prepare their estimates for the next fiscal year, beginning the following April 1, and to submit these estimates to him by a given date, usually early in December. This letter carries such instructions regarding the form of the estimates as may be required, and it sometimes stresses expenditure policy or economy, as the British circular letter asking for the estimates often does.

The estimates are prepared within each department by the deputy minister with the assistance of the branch and division heads.[1] Once the estimates have been gotten together for the various services of the department and reviewed carefully by the deputy minister and his subordinate officers, they are turned over to the minister of the department. He again reviews the estimates and, after such revision as he may think necessary, transmits them with supporting memoranda and statistical data to the Minister of Finance.

When the estimates reach the Department of Finance, they are assembled by the Estimates and Treasury Board Division. Comparisons are made with expenditures of previous years, and tabulated in convenient form, together with a summary of each departmental estimate. Digests of the supporting data furnished by each department and such other information as may be pertinent are prepared. An estimate of the probable revenues for the ensuing fiscal year is also prepared, together with a general statement of financial policy. The estimates and these supporting data are then turned over to the Minister of Finance and the other members of the Treasury Board for their consideration.

As pointed out in the previous chapter, the Treasury Board is a committee of the Cabinet, consisting of the Minister of Finance as chairman and five other ministers, with the Deputy Minister of Finance acting as secretary. The Board is reconstituted by Order in Council after each

[1] Watson Sellar, then Comptroller of the Treasury, in speaking on "Parliamentary Grants" before Treasury officials on November 7, 1935, cautioned Treasury officers in the preparation of estimates. "Certainly no Treasury officer," he said, "should recommend a total be the same as the year before, merely because it will be easier to get the item past the Government and the House of Commons without any special defense being necessary. This may be sound strategy so far as the House is concerned, but such a decision rests with the ministers." He also gave advice to Treasury officers who act in an advisory capacity. "Treasury officers who are frequently called in to assist in the preparation of estimates," he asserted, "are expected to safeguard the departments on the financial side." He listed the more important points to be considered, and concluded with this sage advice: ". . . if a department has a number of estimate items, or a single long item, give thought to the order in which they are to be listed in the printed book. An important item should be placed first, because it gives the Minister better ground on which to marshal support for all. Many a battle exhausts itself on the first item." (*Treasury Office Lectures,* 1935–36 Season, No. 1, "Parliamentary Grants.")

change of government. The ministers who sit with the Minister of Finance on this Board are usually important cabinet members and heads of large spending departments. As a subcommittee of the Cabinet, they assist the Minister of Finance in arriving at his decisions on the expenditure estimates. But the Minister of Finance is mainly responsible for proposing the methods of raising the revenue to meet the proposed expenditure.

The extent to which the Treasury Board scrutinizes the estimates and reaches definite decisions with respect to them varies a great deal with changing personnel and conditions. The Board can call other ministers and their subordinate officers before it to explain and justify their requests. Unless there is substantial unanimity of opinion, it cannot reach final decisions with respect to the estimates. When the Board arrives at the point where it can make no further progress with its revisions, the Minister of Finance submits the unsettled questions with his recommendations to the Cabinet as a whole. The Cabinet, in addition, decides such matters of general policy as the inauguration of new activities. Finally, the Cabinet considers the estimates in the light of the anticipated revenues available to meet the total proposed expenditures, and satisfies itself on the question of budgetary balance. Having thus been determined either by the Treasury Board or by the Cabinet as a whole, the estimates, prior to their submission to the House of Commons, are recommended to the Governor General for his approval, which is always given as a matter of course.

Consideration of the Dominion estimates now approaches rather closely the British practice. The Dominion Department of Finance, as in the case of the British Treasury, is engaged throughout the year in "threshing out questions of expenditure and economy" with the departments. So, as E. Hilton Young puts it with respect to British practice: [2]

> . . . when the estimates come to be prepared, as regards most of the changes in them the departments have only to embody the result of conclusions already come to by the Treasury and themselves, and the Treasury has only to see that the course which it has decided upon is followed. Sometimes, it may be, a department will make the actual preparation of the estimates an opportunity to have another try for something that it has been refused.

The Form of the Printed Estimates

Until the Dominion budget for the fiscal year 1938–39 was prepared, the form of the estimates had remained practically the same as that adopted at the time of federation. Finance Minister Charles A. Dunning was instrumental in making the change. The old form of the estimates,

[2] E. Hilton Young, *The System of National Finance* (3d ed., 1936), p. 21.

he asserted, had a number of defects which "made impossible the presentation to Parliament of intelligible details of the costs of service." These estimates, he held, were "not only lacking in essentials, but actually misleading." When a definite amount had been provided in the estimates for a specific service, it was fair to assume, he thought, that such amount represented the total cost of that service. But this was rarely the case. In the majority of instances further provision was made under the heading designated as "civil government" or some other general title, so that it required an experienced accounting officer, with ample time at his disposal, to compute the real cost of most services. The defects in the form of the estimates were enumerated as follows: (1) statutory authorization of certain expenditures, which should be subject to the annual review of Parliament; (2) provision for the requirements of one service under several titles in the estimates; (3) inclusion of a general title, called "civil government," authorizing salaries and contingencies for practically all governmental services; (4) provision for a number of distinct activities in one general item; and (5) assembly of items under obsolete captions without relationship to existing departmental responsibility.[3]

In view of these defects, Mr. Dunning pointed out that there was obvious need for revision of the estimates in order to give Parliament precise information on the cost of the various services carried on by the government. He recommended that the estimates for 1938–39 should be compiled in accordance with the following rules: (1) an item for each distinct project, service, or grant; (2) elimination of titles of a general character, as far as possible; (3) assembly of items under the department responsible for payment or administration; (4) substitution of annual votes for certain statutory appropriations, mainly those of an administrative character which should be subject to the annual review of Parliament; and (5) notation of estimated total cost of any construction project which might not be completed during the fiscal year for which provision was made. These rules were adopted by Order in Council, dated April 15, 1937, and the Treasury Board was given the final decision in working out the form and details of the estimates.

In spite of the fact that the adoption of the Finance Minister's recommendations, according to Deputy Finance Minister W. C. Clark, "entailed an enormous amount of work on the part of the departments, necessitated a radical change of view in regard to many long established practices, and was bound to result in a substantial addition to the trouble and inconvenience of the ministers in piloting their estimates through the House [because of the increased number of votes], the

[3] As set forth in the Order in Council of April 15, 1937, P. C. 830.

Treasury Board received the effective cooperation of the various ministers and their departments" in the preparation of the estimates for 1938–39. While Dr. Clark thought that further improvements would be made in the estimates from time to time, he believed that the changes already in effect have contributed substantially to more effective control by Parliament over public expenditures. "The estimates in their new form," he said, "are more intelligible to Parliament; they should also be more intelligible to the general public and should consequently increase the influence which the public may exert on Parliament in the direction of eliminating extravagance and waste. The nearer we can get to a true picture of the cost of various governmental services on a cost accounting basis, the more frequently will questions be asked as to whether a particular service is worth what it really costs." [4]

In their new form, the estimates for 1938–39 made a book of 228 pages, while the estimates for the previous fiscal year had been presented in a pamphlet of 95 pages. The larger volume, presenting the estimates for 1938–39, consisted mainly of detailed information, useful to members of Parliament in understanding the expenditure requirements of the several departments and agencies. These estimates were presented in two main sections: first, a two-page summary of expenditure requirements arranged by titles, followed by fifty pages of items or "votes" to be included in the appropriation or supply bill, together with statutory appropriations (marked "S"); second, the detailed figures for the use of Parliament, showing the several services and objects for which the various proposed votes were to be spent. Opposite each vote in the first section, as an aid to easy reference, was printed the page number of the details. The second section of the estimates contained principally information on detailed costs such as salaries, contractual services, supplies, materials, and the like which do not appear in the appropriation bill. The estimates for subsequent years have followed this form.

In presenting the estimates to the House of Commons on February 3, 1938, Finance Minister Dunning said: [5]

> In effect, items in the first section will become votes which must be administered strictly in accordance with their terms and amounts. On the other hand, the details by objects of expenditure contained in the second section may be varied to meet administrative requirements. In general, they will be the basis of classifications compiled by each department at the beginning of the fiscal year under the terms of section 26 of the Consolidated Revenue and Audit Act. These classifications are submitted to the Department of Finance and may not be amended except with the approval of the Treasury Board.

[4] W. C. Clark, "Financial Administration of the Government of Canada," *The Canadian Journal of Economics and Political Science,* August, 1938, p. 398.

[5] From a news release on the revised form of the estimates.

The votes in their new form, however, have recently been criticized as being too indefinite. A vote will often consist of only two or three words to direct the purposes to which it is to be applied. The text of the details in support of each vote is not made part of the appropriation act, and therefore has no legal status for auditing purposes.

The number of votes has been greatly increased by the revised form of the estimates. Under the old form, the main estimates for 1937–38 contained 295 votes, while the supplementary, special supplementary, and further supplementary estimates for that year added sufficient votes to bring the total up to 469. Under the new form, the main estimates for 1938–39 carried 440 votes and in addition 80 statutory items (marked "S"), making a total of 520 separate appropriation items. The supplementary and special supplementary estimates for 1938–39 added another 200 votes, making in the aggregate 640 votes or 720 appropriation items for the year. The most significant change was the addition of 145 votes to the main estimates, which had to be explained and defended by the ministers and passed upon separately by the House of Commons in its consideration of the appropriation bill.

This pronounced trend toward greater itemization of the appropriations is a move away from established British practice, under which the total votes seldom exceed 200 and each vote comprises a particular service, or sometimes a group of services, administered by a single department or agency. It may be said, however, that the British votes often carry subheads which indicate how the money is to be spent, although only the votes are included in the appropriation act for the year. But the Dominion scheme of itemization, even as it stands now, would strike most Americans as being decidedly on the order of lump-sum appropriations. This is because American practice permits Congress and some of the state legislatures to make several thousand instead of merely a few hundred appropriation items, and as a result tends to nullify executive control over the expenditure of moneys and to hamper administrative officers in carrying out their programs.

In the rearrangement of the estimates for 1938–39 and subsequent fiscal years, the items or votes under the general titles or headings of "civil government" and "miscellaneous" have disappeared. These items have been allocated to the departments and agencies to which they belong or by which they are administered. The same thing is true of "debt charges" and "debt management"; these titles have been eliminated and their items allocated to the Department of Finance. The result is that numerous items are not left apparently hanging in the air as they were before, but are all definitely assigned to some responsible department or agency. At the same time, the total requirement of each department or agency

of the government is now brought together at one place and under one heading, so that "he who runs may read." This contributes greatly to the ease with which the estimates of a particular governmental unit may be reviewed. Since the members of Parliament are always interested in the comparison of current estimates with those of the previous fiscal year, the amounts voted for the previous year are shown in a column adjacent to the amounts estimated for each item during the current year. Such information is, of course, necessary for a full understanding of departmental needs.

The Need for Uniform Classification

Canada, like Great Britain, has not regarded the attainment of an exact and uniform classification of expenditures as being worth the effort. The object classification, for example, used in setting forth the detailed estimates in the Dominion is loosely put together and varies widely as to form in the different governmental units. Under the Indian Affairs Branch of the Department of Mines and Resources (*Estimates, 1945–46,* p. 123), one finds the following main classes: (1) salaries and wages, (2) cash allowances, (3) cost-of-living bonus and other pay-list items, (4) supplies and materials, (5) travelling expenses, (6) freight, express, and cartage, (7) telephones, telegrams, and postage, (8) professional and special services, (9) meter rates, (10) rents, (11) equipment maintenance, (12) repairs to buildings, roads, etc., (13) miscellaneous current expenses, (14) acquisition of equipment, and (15) construction of buildings and works. Again, under the Commercial Intelligence Service of the Department of Trade and Commerce (*Estimates, 1945–46,* p. 77), one finds these main classes: (1) salaries, (2) cost-of-living bonus, (3) living allowances, (4) office rents, (5) telegrams, telephones, postage, etc., (6) printing and stationery, (7) travel and removal, (8) local transportation, (9) equipment, acquisition, and repairs, (10) miscellaneous, including janitor service, fuel, laundry, petty cash, etc., (11) printing—*Commercial Intelligence Journal,* (12) newspapers and periodicals, (13) trade and industrial promotion, (14) compensation of trade commissioners for loss of furniture and effects, and (15) opening of new offices. These two examples illustrate the lack of uniformity in the object groupings, the tendency to place in the same group unrelated objects, and the frequent use of such catchalls as "miscellaneous."[6]

In view of this situation, an effort should be made, it seems, to develop and apply a uniform object classification to the expenditures of the

[6] On this point, Watson Sellar, former Comptroller of the Treasury, remarked as follows: "Some departments do not use like phrases to define like activities. Nor do they build up their items into like classifications. It would be a good thing were esti-

various departments and agencies of the Dominion. Such a classification would aid both in accounting and statistical work, and would be the means of producing comparable financial analyses. The main groups of a classification of this type, now widely used in the United States, are: (1) personal services (salaries, wages, other compensations), (2) contractual services (work performed for the government by private persons under express or implied contracts), (3) commodities (supplies and materials), (4) current charges (rents, insurance, and the like), (5) current obligations (interest, pensions, taxes), (6) properties (equipment, buildings, improvements, and land), and (7) debt retirement.[7] The first four groups constitute what are known as current expenses; the fifth, fixed charges; the sixth, and sometimes the seventh, capital outlays. The latter arrangement is known as the character classification of expenditures; it is intended mainly to distinguish expenditures for operation and maintenance from those that increase the capital assets of the government. Other types of expenditure classification, now more or less satisfactorily applied under the new form of the Dominion estimates, relate to organization units, functions, and funds. It is not enough for budgeting purposes, however, to show simply the quantities of services, supplies, materials, equipment, etc., needed in carrying on the work of a department and their estimated costs. Nor is it sufficient to state these quantities and costs in relation to those of the current or preceding year. If those who vote the budget are to be supplied with complete information, they must know something about how the services, supplies, materials, equipment, and so on, are to be applied to departmental work in terms of production, operation, or service. This gets down to a cost accounting basis, where comparisons that have real significance can be made as between proposed and current performances. Otherwise, any decision about the estimated requirements of a department must be based upon analyses or itemizations which are largely superficial, except from the standpoint of indicating the things that should be bought and their probable cost. But as yet, the Dominion of Canada, in common with most of the other governments of the world, has made no notable progress in the application of cost accounting to the various governmental services. Herein lies a most fruitful field for future development.

mating branches, having services in common, to come to an agreement as to the form and texts most expressive of the purposes. Then, we make excessive use of 'etc.'—a sign of poverty of imagination, and one which may restrict rather than expand the purposes for which a vote may be used. We are also careless in listing things of a similar class." (*Treasury Office Lectures,* 1935–36 Season, No. 1, "Parliamentary Grants," p. 3.)

[7] The details of this classification and a discussion of the various groups will be found in the author's book, *Public Budgeting* (1929), Chapter VII, especially pages 200–209.

The Supplementary Estimates

The Dominion estimates discussed above are known as the "main estimates." They are intended to represent the best forecast that can be made, at the time they are prepared, of the expenditure requirements of the several governmental services for the forthcoming fiscal year. Since these estimates are prepared some four or five months before the beginning of the fiscal year to which they apply, they actually relate to a period that ends sixteen or seventeen months later. This fact and occasional changes in the anticipated cost of labor and materials, together with possible shifts in government policy or program, make it difficult to forecast accurately the amount required for each service.

A regular feature of the Dominion budget, therefore, is the preparation of "supplementary estimates," which are introduced in the House of Commons shortly after the opening of the fiscal year. These estimates, as their name indicates, supplement the votes requested in the main estimates which have been found to be inadequate. But they usually do more than this: they provide for items not previously anticipated or for new works or services which the Cabinet has later decided to recommend. Herein lies the major weakness of the supplementary estimates procedure as developed in the Dominion; it permits the Cabinet to delay for several months in working out the final budgetary requirements for the fiscal year. The main estimates, therefore, may not represent a complete picture of the government's expenditure needs. Indeed, there are cases in recent years, prior to the outbreak of World War II, in which the main estimates carried less than 80 per cent of the total requests, the supplementary estimates carrying the difference. It is probable that the Dominion Cabinet may have been encouraged in this practice by a similar, and much abused, usage in the United States, namely, that of deficiency appropriating.

As a rule the supplementary estimates are submitted to the House of Commons in the early summer, just before the close of the parliamentary session. At this time the fiscal year still has several months to run, so that further requests may be necessary before the year ends. These requests are called "further supplementary estimates"; and they are submitted to the House just before the fiscal year closes, usually in February. As a rule, they are included in the appropriation acts of the subsequent fiscal year. These later estimates represent more nearly than do the others what are known in Great Britain as supplementary estimates. In British practice such estimates are kept as low as possible, "and anyone," says John W. Hills,[8] "who has had some experience of wringing one out of the Treas-

[8] John W. Hills, *The Finance of Government* (2d ed., 1932), p. 53.

ury knows that it is far from pleasant to have to make such a demand."

According to British practice, supplementary estimates were used as sparingly as possible in the prewar period. In fact, E. Hilton Young, while admitting that they were often unavoidable, said that "they are always a necessary evil." He continued: [9]

> The House and the taxpayer have the right to expect that the estimates and the scheme of the budget shall be rigidly adhered to by those who have to administer them. Public control of public expenditure depends for its efficiency in large measure on the financial scheme for the year being presented to the House and considered and approved once and for all and as a whole. To allow the scheme, once approved, to be treated as something still fluid and liable to extensive modifications must infinitely weaken effective control, and supplementary estimates are the most harmful way of doing so. To make anything but the most restricted use of them must deprive the whole system of supply of its meaning and utility. Whilst admitting therefore that they are occasionally necessary in the case of emergencies unforeseen and unforeseeable, we should remember that they are always harmful. They are a diseased excrescence on the year's finance, and the success in finance of the Ministry may be measured by its ability to do without them.

The dangers arising from the supplementary estimates procedure have been fully realized by some of those who are most intimately acquainted with the Dominion's financial system. Deputy Finance Minister Clark says that "unless supplementary estimates are restricted to the lowest practicable amounts, they will do more to destroy effectual parliamentary control than probably any other indirect method that can be devised." The Dominion supplementary estimates have come to resemble the deficiency estimates of the United States more than the supplementary estimates of Great Britain. If they are not effectively checked, they may lead to fiscal abuses similar to those which have been experienced in the United States, such as uncontrolled expenditures resulting in a gradual weakening of the appropriating authority of Congress.

Ordinary and Capital Expenditures

An attempt has been made in the Dominion estimates to separate capital from ordinary expenditures, which is a distinct departure from British and American national practice. But the percentage of the total estimates ordinarily attributed to capital expenditures has not been very large. It amounted to only about 1 per cent, or $5,680,000, of the main and supplementary estimates for 1938–39, the last prewar budget. As recently, however, as the fiscal year 1930–31, capital expenditures amounted to as much as $28,000,000. They were even larger in earlier years, and the purposes for which they were made were often open to criticism.

[9] E. Hilton Young, *The System of National Finance* (3d ed., 1936), p. 65.

The practice of assigning certain expenditures to a capital account dates back to the time of federation. The first Dominion finance officers were said to have occupied similar posts in the old Province of Canada, where they had been accustomed to a capital account, so they simply carried over the practice to the new government. While this account was supposed to have been "grossly abused" in the province, it was expected that the federal system would be reformed so that only new construction or improvements of national importance would be charged to capital expenditure. Such was the case for a few years while federal revenues were buoyant, but in the depression of the 1870's the finance ministers, anxious to present a good financial picture to Parliament, made indefensible charges to their capital accounts. This abuse seems to have been continued for many years. In the estimates for 1886–87, Sir Charles Tupper is reputed to have transferred the receipts from federal domain to ordinary revenue, while charging the outlays to capital expenditure. Railway subsidies, inaugurated in 1883, were regularly charged to capital account, although intended only for the construction of short lines of purely local importance. From 1883 to 1914, these subsidies were annually distributed to different parts of the country, and some $67,000,000 was added to the Dominion debt. Between 1896 and 1910, over $12,000,000 more was added to the Dominion debt by the purchase of military equipment, most of which was quite perishable, but which was nevertheless charged to the capital account. In addition, between 1898 and 1911, the Dominion debt was increased by more than $19,000,000 through charging to the capital account certain bounties to encourage the production of iron and steel. Expenditures for equipment and replacements for the Intercolonial Railway, provincial canals, and public works also were carried to the capital account, and eventually became part of the Dominion debt. During World War I, however, the capital account more or less dropped out of sight, since war expenditures overshadowed all others and had to be financed mainly by borrowing.[10]

The general idea of showing capital expenditures separately from current expenditures in setting up the budget of the Dominion government seems to be both desirable and sound, particularly so in support of a countercyclical budget policy such as the government has proposed for the postwar period. The desirability of such a step has been demonstrated by the budgetary practice in subordinate units of government. The main difficulty in the Dominion government is that the idea has been poorly applied. The government has not properly defined capital expenditures, and where it has borrowed to finance such expenditures

[10] J. A. Maxwell, "The Distinction between Ordinary and Capital Expenditure in Canada," *Bulletin of the National Tax Association,* February, 1934, p. 147.

it has never related the nature and life of the improvements to the term of the bonds. In other words, a practice that started more or less by accident has not been carefully developed as a part of the Dominion's budgetary procedure. But at least the Dominion recognizes a division between current and capital expenditures, which is a desirable point of departure in national budgeting.

Government Owned Enterprises

A new expenditure caption, entitled "government owned enterprises," was set up for the first time in the Dominion estimates for 1937–38. Under this caption are the estimates to meet the operating deficits of government owned enterprises and nonactive loans and advances to such enterprises.[11] These enterprises include the Canadian National Railways, the Trans-Canada Air Lines, the Canadian National Steamships, Ltd., the National Harbours Board, the Canadian Broadcasting Corporation, and similar enterprises. During World War II the deficit and loan requirements of these enterprises have been the lightest for any period in recent years. In 1931, 1932, and 1933, during the depths of the depression, the net income deficit of the Canadian National Railways alone was $60,000,000 a year in round figures, not counting unpaid interest on government loans of approximately $36,000,000.

It should be noted that the government owned enterprises are budgeted separately from the general budget of the Dominion, each having its own budget, and that most of them operate on the basis of the calendar year rather than the Dominion's fiscal year. Generally speaking, Parliament exercises rather limited control and supervision over the finances of these enterprises. Each enterprise has virtually complete control of its own receipts and expenditures, with perhaps a small measure of supervision by the minister in charge. If it fails to make ends meet, the Dominion's general budget is left holding the bag.

By far the largest and most important of the government owned enterprises is the Canadian National Railways. Although the Dominion government had promoted and helped finance the building of railroads since the time of federation, it did not acquire a railway system until World War I.[12] To save the Canadian Northern Railways, a transcontinental road with 9,000 miles of track, from financial disaster in 1917

[11] Nonactive advances do not earn interest and are treated in the government accounts as expenditures.

[12] It is true that two small railways, the Intercolonial Railway, built as a condition of federation and completed in 1876, and the Prince Edward Island Railway, opened in April, 1875, had since their construction been owned and operated by the Dominion government. In 1903 the Dominion government started the construction of the National Transcontinental railway line from Moncton, N.B., to Winnipeg, Man.,

the Dominion government acquired its stock and took it over. In 1919 the Grand Trunk Pacific Railway Company collapsed, and a year later the government also took it over. These roads, together with a number of subsidiary lines both in Canada and in the northern part of the United States, were consolidated in 1923 to form the Canadian National Railway Company, later called the Canadian National Railways.

The total trackage of the Canadian National Railways system at the present time is approximately 23,000 miles. It is the largest single railway system in North America. Connected with it are extensive telegraph lines, several hotels, and two steamship services. The system is managed by a Board of Railway Directors, consisting of seven members appointed by the Governor in Council, which is required to report annually on the management of the system to the Minister of Transport. This board has complete control of the annual operating budget of the system, but with the following proviso: that the requirements for income deficits, for interest on obligations outstanding in public hands, for capital expenditures, and for refunding and retirement of maturing securities must be submitted to the Minister of Finance for consideration by the Cabinet and thereafter for presentation to the House of Commons. Income deficits may not be funded, and amounts voted by Commons for capital purposes may not be diverted to cover operating deficits. The railway accounts are audited continuously by private auditors, rather than by the Auditor General. These auditors are appointed annually by a resolution of the House of Commons, and are required to report their findings to the Minister of Transport and to Commons.

The government's financial problem in connection with the operation and fixed charges of the Canadian National Railways is already of considerable magnitude. The system's total indebtedness at the end of 1936 was slightly more than $2,580,000,000. Of this amount, $1,184,000,000 represented securities held by the public, approximately a billion dollars of which was guaranteed by the government as to principal or interest, or both. The remaining $1,396,000,000 represented loans, advances, and contributions by the Dominion government, and unpaid accrued interest on government loans. By an act of Parliament, the capital structure of the system was completely revised and adjusted as of January 1, 1937. This act set up in connection with the National Railways a new corporation called the Canadian National Railways Securities Trust, to which was transferred the government's claims against the system for loans of about $643,000,000 and accrued interest of over $574,000,000.

which was to be leased to the Grand Trunk Pacific Railway Co., but the company was unable financially to take over the operation of the road when it was completed in 1915.

In return for this transfer, the Securities Trust issued to the Minister of Finance to be held for the Dominion all of its capital stock with an initial stated value of about $270,000,000, representing the amount of loans made for capital purposes. On the books of the Railways and of the Dominion, this amount was represented in the "Dominion Government Proprietor's Equity" as at January 1, 1937.[13] Loans from the Dominion of about $373,000,000, which had been made to cover operating deficits, were written off the books. The $574,000,000 of unpaid interest due to the government on loans was transferred to the Securities Trust. About $530,000,000 of this amount, which had never been put on the Dominion accounts but had been accrued on the Railways' books, was written off. Only the loans treated as "active assets" by the Dominion were continued on the Railways' books. Capital stocks held by the government to the amount of $247,000,000 were cancelled, and a claim for an old loan of the Province of Canada, amounting to about $15,000,000 was cancelled. All stock ownership of the various railways was placed under the control of the Canadian National Railways, the government in turn receiving the stock of the latter. Some other adjustments of a minor nature were also made. As a result of all these adjustments, it was possible to consolidate the accounts of the Dominion and the Railways without involving duplication of liabilities, and to reflect the government's position as the proprietor, not merely the creditor, of the Railways system.

The Trans-Canada Air Lines, operated as a subsidiary of the Canadian National Railways, was acquired by the Dominion government during the early part of 1937, its capital stock costing the government $1,500,000. It was expanded rapidly with the aid of American technicians so that by the outbreak of World War II its facilities extended all the way across Canada. Since that time it has grown rapidly, having recently established international and trans-Atlantic services. While it has been necessary for the Dominion government to subsidize the operations of the air system quite heavily, Canada was fortunate in having had it during the war.

In accordance with the Canada–West Indies Trade Agreement Act of 1926, the Dominion government provided direct steamship service to the West Indies by organizing the Canadian National Steamships, Ltd. The service consisted of about a dozen small vessels, some of which were especially constructed to carry passengers to the West Indies and

[13] The Proprietor's Equity account does not remain at the same figure as on January 1, 1937. It is annually adjusted by the amount of line abandonments and other capital losses or gains.

others were taken over from the Canadian Government Merchant Marine (liquidated in 1936) and reconditioned to fit them for use in the West Indies. The total capital investment of the government in the service was about $11,000,000. The service ran a deficit each year until 1936 when it began to show an operating surplus. In 1937 this surplus amounted to $189,000, which was paid to the government in partial reimbursement of prior deficits and interest. Surplus earnings have continued since that time. The company reports to the Minister of Transport on its operations and finances.

In the autumn of 1935, the National Harbours Board, consisting of three commissioners, was created to have control of the eight principal harbors of Canada—Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal, Vancouver, and Churchill—with a capital investment of approximately $225,000,000. Prior to this time, these harbors had been under the management of separate harbor commissions. The National Harbours Board has its headquarters at Ottawa and reports to the Minister of Transport. It is responsible for the administration, operation, and maintenance of the eight ports named above, as well as other harbors or properties transferred to it by the Governor in Council, which include grain elevators at Prescott and Port Colborne, the Jacques Cartier Bridge at Montreal, and the Second Narrows Bridge at Vancouver. Each port is directed by a manager, responsible to the board. The Comptroller of the Treasury, however, is authorized to supervise the accounting of each port, subject to an audit by the Auditor General. Separate budgeting and accounting are maintained at each port, and the moneys earned at one port may not be diverted for use at another. While the operating income of the harbors and other properties has shown considerable improvement since their administration was centralized, it is still necessary for the government to vote sums for operating deficits and improvements.

The Canadian Broadcasting Corporation, which has complete control of radio broadcasting in the Dominion, was established in 1936. It is under a board of nine governors appointed by the Governor in Council. The administration of the corporation is directed by a general manager, also named by the Governor in Council upon recommendation of the board. The corporation operates on its own budget. It has charge of all moneys, such as radio license fees, received by it as well as other revenues arising out of its business. The Dominion government is required to loan the corporation up to $100,000 for working capital and $500,000 for capital improvements. The corporation must maintain an accounting system satisfactory to the Minister of Transport and

must render detailed reports to him at such times and in such form as he may designate. The accounts of the corporation are audited by the Auditor General, and a summary of such accounts is included in the annual report of the corporation. The fiscal year of the corporation, instead of being identical with the calendar year as in the case of the other enterprises, is the same as that of the Dominion. The annual revenue of the corporation, mostly from radio receiving licenses, amounts to about $6,000,000. As of March 31, 1943, all loans made by the Dominion government to the corporation had been repaid.

Three other agencies, which may be designated as Dominion enterprises, not directly outgrowths of World War II, should be noted in this connection. These are the Post Office, the Bank of Canada, and the Canadian Farm Loan Board. From a budgetary standpoint, the Post Office is operated almost exactly like the ordinary service departments of the government. It is budgeted in the Dominion budget in gross amount, its revenues, usually more than enough to meet its expenditures, going into the Consolidated Revenue Fund. There is, however, this one exception: a growing percentage of the postal revenues is being disbursed directly by the Post Office, mostly as compensation to postmasters in small offices, without being budgeted or specifically authorized by the House of Commons. For the fiscal year ended March 31, 1946, gross postal revenues were $83,700,000 and expenditures amounted to $72,800,000 in round figures, of which $15,100,000 were paid directly and the remaining $57,700,000 from parliamentary appropriations. The Auditor General has recommended that the Post Office should be considered as a public utility enterprise, serving the public on the payment of service charges. This would require the Post Office accounts to be operated as a separate entity and on a commercial basis, as has been the practice for more than a decade in handling Great Britain's Post Office. If this were done in Canada, it would require the Dominion Post Office to submit to Parliament each year a complete statement of its financial operations, disclosing the cost of its several activities and the income derived from each. The adoption of such a plan, if the postal income resulted annually in a surplus, might involve the submission to the House of Commons of token votes to permit parliamentary scrutiny of the Post Office activities. If, on the other hand, a deficit had to be financed, it would be provided by a vote in a supply bill, the Post Office having to disclose the nature, the cause, and the steps being taken to avoid a recurrence of the deficit.[14]

[14] Auditor General's *Report*, 1939–40, pp. 558–60. Also Auditor General's *Report*, 1941–42, p. 616.

The government owned Bank of Canada, described in the preceding chapter, was organized and began to do business in the spring of 1935. The Board of Directors, or the Executive Committee, of the bank has complete control of its operating budget. The Directors are required to report weekly, monthly, and annually to the Minister of Finance on the condition of the bank's affairs. The annual report must be made within six weeks after the end of the bank's fiscal year, which is the same as the calendar year, and the Minister of Finance must transmit it to Parliament within a fortnight. The affairs of the bank are examined regularly by two auditors, eligible to serve under the Bank Act in auditing private banks. The auditors are appointed by the Governor in Council on recommendation of the Minister of Finance in January of each year. The same auditors cannot serve more than two years in succession. A copy of every report made by the auditors to the Bank must be transmitted at the same time to the Minister of Finance. The annual statement of the bank must be certified to by the auditors.

In January, 1929, the Dominion government decided to embark upon a scheme of agricultural credits. At that time the Canadian Farm Loan Board was organized, consisting of three members appointed by the Governor in Council. One of the members was designated Farm Loan Commissioner and chairman of the board, his appointment being for ten years. The other two members were appointed for three and six years, respectively. The Deputy Minister of Finance was made a member ex officio of the board. Under the provisions of the Canadian Farm Loan Act and subsequent amendments, the board is authorized to make long-term loans to farmers on the security of first mortgages on farm lands and to make supplementary advances on the security of second or chattel mortgages. The board has authority to budget its operating expenses and is required to maintain a set of accounts covering its various operations. It is required to report its operations, at least annually, to the Minister of Finance and to Parliament. The accounts of the board are audited by a firm of chartered accountants appointed by the Governor in Council.

When first organized, the Farm Loan Board was supplied with operating funds by a government loan of $5,000,000. Further funds have since been secured by the board through the sale of Canadian Farm Loan Bonds, which are purchased by the Dominion Minister of Finance up to the limit of $50,000,000, and by the sale of capital stock also purchased by the Dominion government to the extent of 5 per cent of the aggregate loans outstanding. On March 31, 1947, the total investment of the Dominion government in the Farm Loan Board was about

$21,222,000, which represented advances to the board and the purchase of the board's capital stock and bonds. The board is permitted to put part of its losses on the government under a provision which allows it to cancel the stock subscribed by the government with respect to any loans on properties which upon foreclosure and sale do not net sufficient money to pay the loans, accumulated interest, and other charges. As of March 31, 1947, the board reported loans to farmers totaling in round figures $22,386,000 of which $21,837,000 was invested in first mortgages and $549,000 in second mortgages. The board also reported loans to fishermen, under authority of the Fisherman's Loan Act of $4,900. For the latter loans, the government had advanced to the board $29,000 as initial capital.

The Budget Speech

The budget speech is delivered by the Minister of Finance before the House of Commons. It is usually made upon the motion for the House to go into Committee of Ways and Means. The time of its delivery from year to year varies by as much as five months; it has been made as early as the middle of February or as late as the middle of June. For example, the ten prewar budget speeches given between 1930 and 1939, inclusive, were distributed as follows: one in February, two each in March, May, and June, and three in April. The earliest date for the speech was February 25, 1937, and the latest date, June 16, 1938.[15] The speech came early in 1937 in order to give certain members of the Dominion government an opportunity to attend the coronation of King George VI, and it was deferred in 1938 in the hope that a trade agreement with the United States would be consummated before the budget was "brought down."

For a score or more of years after the Dominion was established, it was the rule in the House of Commons that the expenditure estimates could not be taken up until after the budget speech had been delivered. It was necessary, therefore, for the budget speech to be given fairly early in the session, if Parliament was to dispatch its business expeditiously. But then in the late 1880's the British method was adopted, according to which the estimates, submitted early in the session, were considered by the House of Commons before the budget speech was delivered. According to this practice, it is not absolutely necessary that the speech be given at an early date. However, since the most important debates of the session usually occur after the delivery of this speech, it is desirable to have it made as early after the opening of the fiscal year as seems

[15] The budget speech in 1944 was given on June 26, and in 1945 on October 12, the latter being delayed because of a national election and the end of the war.

practicable. And especially is this advisable when important changes in taxation are being proposed in the budget, so that ample time may be afforded for their discussion in Parliament. It would seem, therefore, most appropriate to have the budget speech delivered during April, or during May at the latest. This is the practice in Great Britain, where the fiscal year begins on April 1, as it does in Canada.[16]

Main Features of the Budget Speech

According to British practice, the budget speech has come to have certain essential features. These were very well stated by Sir John Simon, British Chancellor of the Exchequer, in his budget speech before the House of Commons on April 26, 1938. In his introductory remarks, he said:

> Every budget statement deals with three matters in turn; it is, so to say, our annual problem play presented in three acts. In the first act we have the review of the financial year which has just closed, and the comparison of the actual outturn, both of expenditure and of revenue, with the estimates which were made twelve months ago. This contrast between prophecy and performance brings out the first figure of definite interest in the drama, which is the balance. . . . Then comes the second topic on which I have to enlarge, namely, the components of the total—the very formidable total—of our prospective expenditure in the present year, and the estimate of prospective revenue on the existing basis of taxation to set against it. On this occasion the Committee [of Ways and Means] must prepare itself to find that this comparison leads to a balance which will show a deficit to be met. Then the figure of the balance having been precisely ascertained after a necessarily rather elaborate statement, the stage is set for the curtain to rise on the third and decisive act, and the author presents to his critics in the stalls and to the public in the gallery his solution of the problem which he has thus laboriously developed.

Until recent years the Canadian budget speech has made a poor showing as compared with the British. For many years prior to 1931 it failed to reveal what is perhaps the most essential feature of such a speech, that is, the balance between prospective expenditure and anticipated revenue for the year to be financed. This failure and the fact that the Conservative party had just gained control of the government caused Prime Minister R. B. Bennett, acting also in the role of Minister of Finance, to declare in his budget speech delivered to the House of Commons on June 1, 1931, that "this is the first time in many years that this

[16] It has been argued recently that the Dominion budget should be "brought down" in February or March at the latest, because (1) the outcome for the fiscal year can then ordinarily be estimated with accuracy; (2) if new taxes are to be added or old ones modified, a full year's operation and experience can be gained if put in effect on April 1; (3) owing to the peculiarities of Canadian economy, it is advantageous to business to know where it stands at the opening of spring operations.

country has had a budget." When this statement was questioned by some of the members, Mr. Bennett replied:

> Will any hon. member of the other side of the House say that last year there was any estimate given of expected revenues? Was there any estimate given of expected expenditures? Was there any word given of a $75,000,000 deficit? What did they do? What the then government did was merely to bring down estimates for moneys to be raised by taxation without any estimate of what was to be realized. I said frequently in this House in those days, and I now repeat, that not in any municipal council in this country would the people tolerate their mayor and councillors conducting business without giving an estimate of expected expenditures and revenues for the current year. It is the basis of responsible government, it is the basis upon which representative institutions have been established, and that responsibility can only attach when there is some estimate as to what is being received by the country from taxation imposed and as to what expenditures are to be made.

Generally speaking, this statement was true of the budget speeches that had preceded it for many years, but it also contained an element of political criticism leveled at the Opposition (Liberal) party which had been in power during most of the previous decade. Such criticism is not at all uncommon in Dominion budget speeches, the object being to create party capital.

But Mr. Bennett, pursuing his idea of a budget, made an estimate of anticipated revenues on the basis of existing tax rates and compared this estimate with proposed expenditures, showing that, as he said, "Parliament must take under consideration ways and means to secure added revenues if the accounts are to be balanced." He submitted proposals for additional revenues and defended them before the House. He also announced a policy for depression financing which was to guide his administration through the worst part of the economic crisis. As a matter of fact, his budget speech dealt fairly comprehensively with five important budget matters: (1) the financial operations of the Dominion for the past fiscal year, ended on March 31; (2) the balance sheet of the Dominion as of that date, discussing active and nonactive assets and direct and indirect liabilities; (3) the trade and commerce of the country; (4) the estimated revenues and expenditures for the current fiscal year, which was being budgeted; and (5) the ways and means proposed to provide the necessary revenues to meet the required expenditures. The four budget speeches covering the remaining years of the Bennett Government, prepared and delivered by Finance Minister Edgar N. Rhodes, followed substantially the same general form as the speech by Mr. Bennett. During the depths of the depression, a brief review of world economic conditions as they affected Canada was added. But always there was an effort to set forth a balanced statement of proposed expenditures

and anticipated revenues, although not exactly in the accepted British form. This alone represented a marked improvement in form over the preceding budget speeches by Finance Ministers James A. Robb and Charles A. Dunning.

When the King Government again came into power during the latter part of 1935, Mr. Dunning was named to the post of Minister of Finance a second time. In his budget speech of 1936, he accepted the general form of the preceding Government and was able to improve upon it from an informational standpoint. In this speech and the three succeeding ones, he arrived at a formula for treating the financial requirements of the Dominion. His budget speech of 1939 (delivered on April 25) was divided into three parts: (1) review of economic and financial conditions; (2) government accounts, 1938–39; and (3) budget forecast, 1939–40. Under the first part, he discussed such topics as external conditions, economic activity in Canada, foreign trade, Canada's balance of international payments, interest rates, prices, agriculture, necessity for capital expansion, monetary policy, the housing program, municipal improvements assistance act, encouragement of mining development, fiscal policy, and leadership and new enterprise. In the second part, he reviewed the revenues and expenditures of the fiscal year just closed, pointing out the percentage distribution of revenues and explaining the capital and special expenditures and the financial status of government owned enterprises. The "over-all" deficit for the fiscal year and its effect on the net debt of the Dominion were also treated in this part. Reference was made to a "white paper" which was being placed on *Hansard,* that in itself was a new departure; since this was the first time that a Dominion Finance Minister had presented a statistical and accounting statement in the form of an appendix to his budget. This effort on the part of Mr. Dunning was probably an attempt to set forth in more detail than is possible in the budget speech the facts and figures relating to the government's accounts and to its economic and financial conditions. In the third part of his budget speech, Mr. Dunning set forth a balanced statement (though not in clear tabular form) of the revenue and expenditure requirements of the budgeted year, showing the resulting estimated deficit. Then he proposed a number of changes in certain of the Dominion taxes. In this connection, he discussed treaty negotiations and tariff changes and the Tariff Board's reports. He then finished with a brief conclusion, which was followed by the budget resolutions.[17]

[17] This budget speech by Mr. Dunning dealt with the last prewar budget of the Dominion. As a matter of fact, this budget was revised before the year was half concluded by the first war budget, the budget speech being delivered on September 12, 1939, by J. L. Ilsley, then Minister of National Revenue.

The Revenue Estimates

The revenue estimates are presented only in the budget speech, and they are not set forth in any considerable detail so that they may be compared with the actual collections of the years immediately preceding. As already noted, there was little or no emphasis placed upon these estimates prior to the budget speech of 1931. And since that time Dominion budgetary practice has not stressed the importance and accuracy of the revenue estimates as has long been the custom in Great Britain, where the budget speech is always supported by a "statement of revenue and expenditure as laid before the House by the Chancellor of the Exchequer when opening the budget." This statement sets forth, among other things, the actual and estimated revenues in detail and shows the effect which any proposed changes in taxation will have upon the existing sources of revenue.

The British budget makers pride themselves upon the accuracy of their revenue estimates. These estimates are always seasoned with experience and fortified with statistics. The Statistical Office of the Board of Customs and Excise in connection with the Treasury performs the greater part of the work of estimating revenues for the British budget.

> There they have records [writes E. Hilton Young[18]] of the yields of all taxes for many years, which show their normal rates of increase with growing wealth and population, the effect of any change in rates, and that of any special circumstances such as strikes, wars, and unusual weather. By taking last year's yields as a basis, adding or subtracting a normal amount for the regular increases or decreases which the records show to be in progress, and making a correction for any abnormal disturbing influence which it is possible to foresee, a very exact estimate can be made of the revenue in the coming year. Armed with that, the Chancellor knows as well as man can know how he stands, and how he may best meet the demands of the spending departments.

The British fiscal officers and statisticians may rightly be proud of the revenue estimates which they have prepared. At no time during the depression years, uncertain as were business and economic conditions, was there a variation of more than 2.5 per cent between the total estimates and the total collections. It was in the budget for 1932–33 that the total receipts fell below the total estimates by this maximum percentage. The widest variations among the individual sources of revenue in that budget were in the income tax, with receipts 3.2 per cent below the estimates, and in the customs and excise taxes, with receipts 3.9 per cent below the estimates.

By comparison the Dominion revenue estimates for the same period make a rather poor showing. The revenue estimates for the fiscal years

[18] E. Hilton Young, *The System of National Finance* (3d ed., 1936), p. 28.

1931–1932 and 1932–33 were each about 17 per cent above the actual receipts, while those for 1933–34 were 9 per cent above the receipts. The estimates for 1934–35 happened to be fairly accurate, at least as to the total, being within one-half of 1 per cent of the actual receipts. But the estimates for 1935–36 were 5 per cent above the receipts, and those for 1936–37 were 9 per cent below the receipts. Hence, for a period of six consecutive fiscal years reasonable accuracy was attained in the revenue estimates of only one year. The receipts for four of these years were overestimated by considerable percentages, a more serious matter in balancing the budget than underestimation. This record, while by no means as poor as that of the United States government for the same period, is nevertheless one that leaves room for considerable improvement in the estimating of revenue.

Approach to a Balanced Budget for the Depression Years

During the depression years, the Dominion government was considerably influenced at some points in its fiscal policy by the vast spending programs of the United States. At the same time, it seemed to look with respect upon the persistent efforts of Great Britain to balance her budget. While it did not follow the British policy, it did not go to the other extreme. The Dominion budget, however, showed a deficit for every year during the depression up to the outbreak of the Second World War. The cumulative deficit for the eight fiscal years between April 1, 1931, and March 31, 1939, totaled $890,446,000, and was the cause of an aggregate increase in the direct net debt of the Dominion for that period of 35 per cent. But this appears to be conservative spending when compared with that of the United States government for the same period, during which the national debt was more than doubled as a result of the accumulated budget deficits.

What was the Dominion government's policy with respect to balancing the budget during the depression? Prime Minister Bennett, in his budget speech for 1931, asserted:

> Two principles have to be borne in mind; the first is that however tempting the field may be, in a period of great depression departure from known practised methods of taxation should be as few as possible. In other words there should be as little dislocation of business as possible and the taxes imposed should be those with which the people are familiar. The second is that taxes should be as light as possible having regard to the conditions which prevail. One of the paradoxes of a situation such as the present is that when money is required most, the people are least capable of paying it in the form of taxation. That is the condition found in periods of universal depression.

This pronouncement of policy on depression financing appears to have been rather consistently followed by Finance Minister Rhodes in

preparing the budgets for the four remaining years of the Bennett Government. Mr. Rhodes, however, ventured to propose $70,000,000 of additional taxation in his budget speech for 1933 as a means of reducing somewhat the "gap," as he said, between "the revenues at the present yield and the estimated ordinary expenditures." He argued in favor of his proposal, as follows:

> It is fully recognized that the additional measures of taxation will involve further sacrifices and the assumption of further burdens by individuals, commerce and industry. Four years of stress and strain resulting from a world depression of unparalleled magnitude cannot but make these burdens more difficult to bear. Nevertheless, it is of paramount importance that as to current expenditures at least we should live within our income. We cannot do less and preserve our national credit. Should that be impaired it would be found that the ultimate sacrifice involved in the effort to restore it would be many times greater.

Then Mr. Rhodes continued by delimiting what he called "current expenditures":

> It has been urged in many quarters that we should balance our budget to the extent of providing currently for the additional expenditures we must make to provide for deficits of the Canadian National Railways and for unemployment relief. Beyond question this would be the ideal course. But to attempt to pursue it under existing conditions would—in my judgment—not only place an unbearable burden upon the taxpayer of today, but would as well retard that recovery of business and industry which is essential to our future well-being.

He then expressed the hope that "With a slight improvement in business our present taxation will produce an expanding revenue sufficient to provide a margin beyond our current needs." "Furthermore," he added, "as conditions improve, the drain upon the treasury for the national railways and unemployment relief will, at the same time, automatically diminish. With expanding revenue upon the one hand and lessening demands upon the other, we can approach gradually and in orderly manner that goal which we must determine to attain at the earliest possible moment, namely, to pay our way year by year, and contemplate a reduction rather than an increase in our national debt. Meantime it is not unreasonable to spread over a period of years the exceptional burden imposed upon us by the unusual severity of existing world conditions."

Upon the return to office in 1935 of the Liberal Government under the leadership of Prime Minister King, a new policy with respect to a balanced budget was announced by Finance Minister Dunning in his budget speech of May 1, 1936. Said Mr. Dunning:

> I am not an alarmist. On the contrary, I am confident that common sense and sound economic policies can solve our immediate problems. Moreover I

am convinced that this country can bear all the burdens which the war and the depression and past mistakes have saddled upon it, great as they have been. Nevertheless I believe that no country can go on indefinitely with heavily unbalanced budgets and continue to maintain either the confidence of investors or the basis upon which her economy can function healthily and vigorously. We have now reached the stage where delay should no longer be tolerated. We must make an immediate approach to a balanced budget and we must be able to show that complete equilibrium can be reached within a reasonable time.

Mr. Dunning then digressed long enough to speak his mind to the House on deflation:

I am well aware that this will be called a doctrine of deflation. Indeed, I have heard it said recently that Canada has been following a policy of "heroic deflation" and that she should take a leaf out of the book of the mother country. It is not easy for me to understand how departure from the gold standard, recurring deficits, financing by borrowing, of the magnitude of those which I have outlined, and a monetary policy which has allowed the Canadian dollar to fluctuate approximately at par with the managed sterling standard and with the devalued United States dollar and which has made possible an expansion of the country's cash base just as rapidly as that of Great Britain, can be described as deflation. More careful analysis would rather appear to indicate that in these financial matters about the only point in the British program which we have not already adopted is her policy of keeping the budget balanced. That, as everyone knows, was regarded by Great Britain as the very corner stone of the recovery program. So much so that the latest British budget imposes substantial increases in a tax structure of already harassing proportions in order to provide funds for increased expenditures considered necessary for purposes of national defense.

Returning to the subject of a balanced budget, Mr. Dunning said: "In my opinion it is not feasible for us to achieve a complete balancing of our budget immediately. That I am bound to admit would involve deflation and to a degree that would probably prove intolerable. What we can and must do is to make an immediate, appreciable approach to a balanced budget as the first step in a definite, positive program which will assure the attaining of our final objective within a limited period."

Mr. Dunning then outlined the measures which he proposed to take to bring about a balanced budget:

On the expenditure side, our first step has been to put an end to the era of "blank cheques" and to reestablish the control of Parliament over both the character and the amount of government expenditures. Before the House rises a complete presentation will have been made of the amounts which the executive branch of government believes it will be necessary to spend during the year and these amounts will have been duly authorized by Parliament. The main estimates for 1936–37, which were brought down some time ago, were designed to cover the ordinary operations of government. Unquestionably they should

be, and they will be, more than amply provided for by ordinary revenues. The special supplementary estimates, recently tabled, were intended to make provision for those special or emergency needs, chiefly the costs of unemployment relief and the deficits of government owned enterprises, which arise out of the abnormal conditions now prevailing. Later, the usual provision may be necessary by way of further supplementary estimates for a moderate amount of additional expenditures not taken care of in the main estimates. With this procedure the public will be assured that the aggregate of those authorizations will represent at least the maximum to be expended during the present fiscal year. I am convinced that this traditional procedure will make far sounder and more economical administration.

Explaining further his policy on expenditures, Mr. Dunning said: "Such savings as can be made in ordinary expenditures by more effective control on the part of spending departments and by a painstaking search for economies, elimination of waste and duplication of effort, will be effected to the maximum possible extent. It is apparent, however, that the opportunity for reductions, except by elimination of essential services, is limited." Then he pointed out that "The two major obstacles to a balanced budget are the cost of unemployment relief, including relief undertakings, and the Canadian National Railways deficit." "Canada's success in reducing these two classes of expenditure," he asserted, "will be the measure of her progress both in achieving a balanced budget and also in furthering the march of recovery." In both instances he proposed methods of reduction, at the same time proposing additional revenue from taxation to the amount of about $30,000,000.

As a result of the application of this policy, the deficit for the fiscal year 1936–37 was reduced to $77,851,000, or less than half of the deficit of the preceding fiscal year. Further pursuit of the policy brought the "over-all" deficit for the fiscal year 1937–38 down to $17,715,000, with a fair prospect that the deficit might be entirely eliminated the succeeding fiscal year. Mr. Dunning stated that the Dominion might then "begin the period when progress can be made in liquidating the accumulated deficits which have been funded during the depression." "That is the goal," he said, "which we must steadily keep in sight."

But the next fiscal year, 1938–39, did not eliminate the deficit for the Dominion. Owing to a world trade recession and the unusual demands of the Canadian Wheat Board, it went up to $50,892,000. This was not a great deal, but it caused Mr. Dunning in his last budget speech, delivered on April 25, 1939, to make certain reflections:

We are well aware of the arguments for pump priming in times of depression, and we have had to increase government expenditures substantially as a partial offset to the gap in private investment. But we have never believed that public spending could be a substitute for private enterprise. We have realized

that public spending could only be a relief and not a cure, unless one is prepared to take the whole of business into government hands. . . . Under our present system, government expenditures are likely to leave the situation no better, and perhaps worse, when they are withdrawn. If they are carried too far they are likely to undermine confidence in the country's financial position and thereby to retard employment in private industry to an extent much greater than the new employment which they create.

But then he observed that in times of depression increased governmental expenditures by democratic governments appeared to be "sheer social necessity." "Nevertheless," he continued, "no nation can go on indefinitely with a budget heavily unbalanced without sooner or later providing a real, not an imagined, basis for fear as to the soundness of the country's financial position. . . . Canada has had ten years of unbalanced budgets. There is yet no reason whatsoever for any fear as to our national solvency. But this process cannot go on forever. Governments must be eternally vigilant that they do not simply take the path of least resistance which is that of easy spending." Then he expressed the hope "that, given peace in the world, if we all put our shoulders to the wheel, we can soon so galvanize our economy that national income will be raised to a point where unbalanced budgets will be a nightmare of the past for the nation as well as for the individual citizen." But Mr. Dunning's hope was blighted within a few months by the outbreak of World War II.[19]

Postwar Budgetary Ideas—Compensatory Spending

As soon as the end of World War II was in sight, Mr. Dunning's idea of a federal budget balanced annually was superseded by the government's proposal for the use of cyclical budgeting by the Dominion. This proposal was broadly defined in a report to Parliament during April, 1945, made by the Minister of Reconstruction, C. D. Howe.[20] The report pointed out that government expenditures are of three kinds: (1) current expenditures for goods and services, determined by the current needs of the government rather than of employment; (2) transfer payments, such as pensions, allowances, and the like, which have an effect on employment as they reappear as private expenditures; and (3) public capital or investment expenditures for buildings, roads, airfields, and other durable improvements. Only the last, the report observed, are to a degree capable of being timed so as to contribute to employment when needed, supplement private expenditures, and compensate for their

[19] The budgetary policy of the Dominion government with respect to World War II costs is discussed in Chapter IX.

[20] "Employment and Income with Special Reference to the Initial Period of Reconstruction," presented to Parliament by the Minister of Reconstruction, April, 1945. See, particularly, pp. 14–24.

fluctuations. It is the firm intention of the government, the report said, "to institute a system of managing its capital expenditures so that they may contribute to the maximum to the improvement and stabilization of employment and income." To do this, the Dominion government realized that it must have the full cooperation of the provinces and their municipalities.

"The deliberate use of public investment expenditures as a permanent instrument in employment policy," the report asserted, "has to be undertaken experimentally. There is, as yet, no working model even in other countries. It will be necessary to frame policy to fit the facts of the Canadian economy and administer it in accordance with our federal constitution." The government proposed to proceed on two lines: (1) to plan all necessary and desirable Dominion projects so that there would be an available "shelf" ready for execution when prospective employment conditions made it desirable to increase public investment expenditures; and (2) to implement, in cooperation with the provinces, a new Dominion policy of expenditures on the development and conservation of natural resources. Then the report added: "These policies, which have vast constructive possibilities in this country, if boldly and prudently planned to meet Canadian problems, require for their full implementation a new definition of financial arrangements between Dominion and provinces."

Such a definition was sought in the government's proposals to the Dominion-Provincial Conference on Reconstruction, which first met in August, 1945. A public investment policy was outlined which was calculated to aid in economic stabilization, and this policy was definitely geared into a social and financial program involving the shifting of important tax sources between the Dominion and the provinces, and the payment of extensive "tax rentals" and subsidies to the provinces by the Dominion government.[21] The public investment policy called for a clear line to be drawn between the activities or projects for which the Dominion government would assume full responsibility and those for which the provinces would be responsible. With respect to the latter, the Dominion government offered both planning and timing grants to the provincial governments. The amount and terms of these grants were to be governed by the general employment and economic situation prevailing in January of any year in which the Dominion government considered such assistance to be desirable. The Dominion government's plans for encouraging private investment did not call for a great deal of provincial collaboration beyond the acceptance of the tax rental agreements.

[21] See below, Chapter X, pp. 236–40.

The Dominion government put itself definitely on record in its 1945 proposals as favoring cyclical budgeting. It said:[22]

> In periods of declining business activity, arising perhaps from depressions abroad, it is proposed that these expenditures [for social services and economic stabilization] will be boldly expanded. Tax rates might be reduced at the same time, but whether this is done or not revenues will obviously fall off sharply and large deficits will result. The Government is not only prepared to accept these but will deliberately plan for them in periods of threatened depression in order to give the economy a stimulus and relieve unemployment. As a corollary the Government will also plan for substantial budgets and debt retirement in periods of high business activity. This is simply saying that the Government will budget for a cycle rather than for any one fiscal year, and that the Government will design both its spending policies and its tax policies throughout the cycle to levelling out the deflationary valleys and inflationary peaks. The great growth of government revenues and expenditures made necessary by the war makes a responsible policy of this sort an obligation, and at the same time, with our increased knowledge of fiscal techniques, makes it a practical policy in the sense that it can have a really significant effect on the business cycle. The modern governmental budget must be the balance wheel of the economy; its very size today is such that if it were allowed to fluctuate up and down *with* the rest of the economy instead of deliberately *counter* to the business swings it would so exaggerate booms and depressions as to be disastrous.

This attitude of the Dominion government on cyclical budgeting was immediately reiterated in the Bank of Canada's annual report to the Minister of Finance on February 8, 1946, in which G. F. Towers, Governor of the bank, said that he hoped mutually satisfactory agreements could be reached between the Dominion and the provinces on postwar tax sources, since it would then be possible "for tax rates to be set in such a way as to encourage business expansion and promote high and stable employment." "I need hardly add," he went on, "that the higher the average level of employment and income which can be achieved, the larger will be the tax base of all governments, and the lower the tax rates which will be required, on average, to meet their needs. Agreements of the kind mentioned would also make it possible to determine tax rates with an eye to balancing budgets over the business cycle as a whole rather than in each separate year."

The countercyclical policy of the Dominion government did not, however, greatly impress the provincial governments, especially those of Ontario and Quebec. No serious discussion of public investment was recorded during the Dominion-Provincial Conference, which ended abruptly on May 3, 1946. And the idea of a public investment program was temporarily dropped by the Dominion government in the subse-

[22] *Proposals of the Government of Canada,* Dominion-Provincial Conference on Reconstruction, August, 1945, p. 8.

quent revision of its proposals to the provincial governments, such proposals being confined mainly to financial arrangements. Since these arrangements have to date been accepted by only seven of the nine provinces, the possibility of working out the larger investment program in collaboration with the provincial governments appears stopped for the time being.

The Dominion budgets for 1946, 1947, and 1948 reflected the conflicting forces at work, even in the federal sphere, in connection with the realization of the government's announced policy for compensatory spending. Large tax reductions were found politically and economically expedient in 1946 and 1947, at a time when the existing taxes or even higher taxes could have been temporarily justified under this policy. These reductions, however, were made because of the desirability of releasing business and industrial enterprise and stimulating production. By 1948 the government's fiscal policy was clearly one of holding inflationary forces in check and retiring as much as possible of the national debt by the use of surplus revenues.[23]

Countercyclical spending for public works, if carried through, would have at least one considerable advantage in Canada which it would lack in the United States. In Canada the Dominion budget and the provincial budgets are really under executive control. The budgetary proposals of the Dominion Minister of Finance and of the provincial treasurers are adopted by their respective legislative bodies with little or no change. But the budgets of the President of the United States and most of the state governors are always subject to legislative changes. In times of prosperity, these changes are almost certain to be in the nature of increased expenditures, often for public works determined on the basis of sectional logrolling.

The Budget Resolutions and Bills

Following the British custom, resolutions are required under Dominion budgetary procedure both for supply and for ways and means. The Committee of Supply of the House of Commons consummates its task of considering the expenditure estimates through the adoption of a series of resolutions. When these resolutions have been approved by the Committee of Ways and Means—a mere formality—they become the basis of the appropriation bills. These bills are prepared by the Minister of Finance in accordance with the provisions of the resolutions and are then introduced in the House for passage.

The minimum number of appropriation bills is three, or perhaps to

[23] D. C. Abbott, "Budget Speech," in *House of Commons Debates* (Daily ed.), May 18, 1948, p. 4093.

be more exact, two.[24] One of these bills, usually enacted on the day before the beginning of the fiscal year to which it applies, is the "interim supply" bill. It merely makes provisions in a lump-sum amount for the support of the government until such time as the main appropriation bill is enacted. It does not distribute the amount so granted among the particular votes for which it is granted, and hence in British parlance is not strictly speaking an appropriation bill or act. In other words, it simply carries the "votes on account," a sum ordinarily equal to one-sixth of the amount to be appropriated for the fiscal year.[25] The "further supplementary" bill, usually enacted about the same time as the interim supply bill, carries the amounts required to supplement the appropriations of the fiscal year just ending. This bill has a schedule of votes attached to it, which controls the expenditure of moneys thus granted. The main supply, or appropriation, bill is usually enacted towards the end of the parliamentary session and always after the fiscal year to which it applies is well under way. It provides the annual appropriations for the operation of the government and generally carries two schedules of votes, A and B, one for the main estimates and the other for the supplementary estimates. These votes set forth in each instance the total amount granted for the fiscal year, although the appropriations carried in the bill may be for only five-sixths of this amount, the other sixth being carried in the interim supply bill.

The appropriation bills differ from other bills in that their preambles assume the form of an address to the British Sovereign. The phraseology is as follows: "Most Gracious Sovereign, Whereas it appears by messages from His Excellency, the Right Honorable . . . , Governor General of Canada, and the estimates accompanying the said messages, that the sums hereinafter mentioned are required to defray certain expenses of the public service of Canada, not otherwise provided for, for the financial year ending the thirty-first day of March, one thousand nine hundred and . . . , and for other purposes connected with the public service: May it therefore please Your Majesty that it may be enacted, and be it enacted by the King's Most Excellent Majesty, by and with the advice and consent of the Senate and House of Commons of Canada that:— . . ."[26] Aside from making the grants to be expended, the appropriation

[24] Sometimes there is a maximum of six appropriation bills, the additional bills being "further supplementary" or "interim supply."

[25] Sometimes it is necessary to vote another sixth, or even a third, in a second interim supply bill, thus carrying the expenses of the government for half of the fiscal year. The lump-sum appropriation carried in the interim supply bill is expended on the basis of the schedules in the estimates which are attached to the main supply bill.

[26] This phraseology is evidently copied from British appropriation acts even to the extent of using "financial year," instead of "fiscal year," which appears later in the body of the Dominion appropriation acts.

bills provide in each case that a detailed account of the sums so expended must be laid before the House of Commons during the first fifteen days of the next session of Parliament. In addition, the main appropriation bill carries a provision authorizing the Governor in Council to borrow money, not in excess of a specified amount, for public works and general purposes and for the redemption of maturing treasury bills.

When the Minister of Finance concludes his budget speech in the House of Commons, he immediately places before the Committee of Ways and Means resolutions embodying any changes in taxation which he may propose. These resolutions generally deal with a revision of the income tax, the customs duties, or the excise taxes from which the Dominion derives the greater part of its revenues. Ordinarily, they provide for a revision of the laws relating to these sources of revenue not through the subsequent passage of a single bill—the "finance act," as in Great Britain—but by amendments to the Dominion's several permanent tax and revenue acts. These amendments are enacted some time after the day upon which the budget speech is delivered, when the House has had ample opportunity to discuss the revenue proposals of the Minister of Finance. But the taking effect of his proposals, particularly as they relate to customs and excise, is not delayed until the amendments are passed by the House. On the contrary, the resolutions are so drawn as to take effect immediately—that is, on the day following the delivery of the budget speech. The reason for this procedure is to forestall action on the part of some taxpayers who might thereby be able to avoid or reduce the payment of proposed taxes. Such procedure is in keeping with British practice.

Chapter IV

HOW THE DOMINION PARLIAMENT ADOPTS THE BUDGET

THE FORMULATION of the budget, as pointed out in the preceding chapter, is in the hands of officers acting under the direction of the Cabinet—the Dominion Executive. It is the duty of these officers to do the Dominion's financial planning, and subsequently to collect and spend its taxes and other revenues. But between the initial planning and the spending processes, there is a highly important stage in the financial procedure which in itself is the very essence of the democratic form of government. In this stage decisions must be made on how much is to be raised in taxes, from whom these taxes are to be collected, and for what purposes the moneys so collected are to be spent. According to British tradition, which has set the general pattern for the democracies of the world, the right to make these decisions belongs to Parliament. "Before a penny can be extracted by the state from the pocket of a taxpayer or a penny spent or a pennyworth of liability incurred, a law must be passed to authorize it," and only Parliament can pass such a law.

This custom had its origin in Magna Carta. "No scutage or aid," swore King John at Runnymede, "shall be imposed in our kingdom unless by the Common Council of the realm . . ." Not many years after the Great Charter was signed, the Common Council was transformed into Parliament. Then in 1688 the Bill of Rights declared, "Henceforth shall no man be compelled to make any gift, loan, or benevolence, or tax, without common consent by Act of Parliament," and furthermore money was not to be levied "for and to the use of the Crown by pretence of prerogatives for other time and in other manner than the same was granted by Parliament." It was then that Parliament received full authority to grant or refuse money for the support of the government.

At the same time Parliament began to determine the uses to which this money should be applied and thus definitely to appropriate it. But it was a long time before the machinery and practice of Parliament and of the Executive (the Cabinet was an outgrowth of the period immediately following the Revolution of 1688) were developed to the point of producing a financial plan which could be regarded as a modern budget.

Relative Authority of the Two Houses of Parliament

In Great Britain the two houses of Parliament no longer have equal authority on money matters; the House of Commons is now decidedly in control. Rivalry between these houses started very early, the House of Commons demanding priority in the consideration of all measures of taxation. By the end of the fourteenth century the House of Lords had conceded this priority to the lower house, though it still maintained the right to change or disapprove such measures when received from the Commons. In 1678 the Commons resolved that the Lords had no right to alter bills for aids and supplies. While the Lords denied this claim in theory, they admitted it in practice. After almost two centuries the houses again clashed when the Lords rejected the paper duties of 1860. The Commons thereupon resolved, under the leadership of Gladstone, that they had the sole right of initiative in taxation, and the sole right of determining its manner and measure. To these claims the Lords assented, at least tacitly, agreeing that the Commons should originate all money bills and that they would not amend them. It was also implied in the resolutions that the Lords had no right to reject a money bill, but they never agreed to this restriction. Then in 1909 the real test came: the Lords rejected the finance bill, because they did not like its imposition of heavier taxes on landed property. The Commons declared this action to be a usurpation of privilege and a breach of the British constitution. A great conflict between the houses followed which, after two general elections, was brought to an end by the Parliament Act of 1911. This act virtually deprived the Lords of the right to reject a money bill. It placed the Commons in supreme command of all financial measures, so far as the two houses were concerned.

When the British North America Act was being drafted, the conflict of 1860 between the British House of Lords and House of Commons over priority in money matters had just been concluded by Gladstone's resolutions. So this act provided in section 53 that "Bills for appropriating any part of the public revenue, or for imposing any tax or impost, shall originate in the House of Commons." In furtherance of this provision a standing order of the House of Commons (No. 61) was adopted, which recites that:

All aids and supplies granted to His Majesty by the Parliament of Canada are the sole gift of the House of Commons, and all bills for granting such aids and supplies ought to begin with the House, as it is the undoubted right of the House to direct, limit and appoint in all such bills, the ends, purposes, considerations, conditions, limitations and qualifications of such grants, which are not alterable by the Senate.

The general operation of this provision and standing order has been discussed by Bourinot, as follows: [1]

Since 1870, no attempt has been made in the Senate to throw out a tax or money bill. The principle appears to be acknowledged on all sides, that the upper chamber has no right to make any material amendment in such a bill, but should confine itself to mere verbal or literal corrections. Without abandoning their abstract claim to reject a money or tax bill when they feel they are warranted by the public necessities in resorting to so extreme a measure, the Senate is now practically guided by the same principle which obtains with the House of Lords and acquiesces in all those measures of taxation and supply which the majority in the House of Commons have sent up for their assent as a coordinate branch of the legislature. The Commons, on the other hand, acknowledge the constitutional right of the Senate to be consulted on all matters of public policy.

On the question of the investigation of fiscal matters by the Senate, Bourinot continued:

The Senate doubtless aims to keep closely within its constitutional functions. That house has declined to appoint a committee to examine and report on the public accounts, on the ground that while the Senate could properly appoint a committee for a specific purpose—that is, to inquire into particular items of expenditure—they could not nominate a committee, like that of the Commons, to deal with the general accounts and expenditures of the Dominion—a subject peculiarly within the jurisdiction of the lower house. It is legitimate, however, for the Senate to institute inquiries, by their own committees, into certain matters or questions which involve the expenditure of public money. But the committee should not report recommending the payment of a specific sum of money, but should confine themselves to a general expression of opinion on the subject referred to them.

As a matter of convenience, bills carrying money provisions are sometimes introduced in the Dominion Senate. When this is done, a purely artificial device is employed by the Senate, after the British practice, to avoid a breach of the Commons' privileges. Upon reading the bill a third time, the Senate leaves out the financial clauses which impose the charge, but it prints them in special type in the bill as sent to the House of Commons; and then the Commons, if they see no objection, reinsert the excepted financial clauses.

[1] Sir John Bourinot, *Parlimentary Procedure and Practice in the Dominion of Canada*, (4th ed., 1916), p. 285.

On some occasions, in order not to prevent the enactment of useful measures late in the parliamentary session, the House of Commons has accepted Senate amendments which only incidentally necessitated a charge upon the Treasury. In this connection, a special procedure with reference to measures imposing pecuniary penalties is provided by standing order No. 62, which runs as follows:

> In order to expedite the business of Parliament, the House will not insist on the privilege claimed and exercised by them, of laying aside bills sent from the Senate because they impose pecuniary penalties; nor of laying aside amendments made by the Senate because they introduce into or alter pecuniary penalties in bills sent to them by this House; provided that all such penalties thereby imposed are only to punish or prevent crimes and offences, and do not tend to lay a burden on the subject, either as aid or supply to His Majesty, or for any general or special purposes, by rates, tolls, assessments or otherwise.

The Senate has also imposed a self-denying rule (No. 71) upon its action with respect to tacking clauses to money bills. This rule declares that "To annex any clause to a bill of aid or supply, the matter of which is foreign to, and different from the matter of the bill, is unparliamentary." Bourinot does not cite any recent example of the violation of this rule by the Senate.

When the chaff has been winnowed off the grain, the relative authority of the two houses of the Dominion Parliament in money matters comes down to this: the Senate plays a very minor role. While all appropriation and taxation measures are reviewed and passed by the Senate, in the process of considering these measures it cannot amend them to change materially their contents and it cannot throw out any of them. In short, the Senate is practically limited to a discussion of the policies involved in the money bills, a position almost as innocuous as that of the British House of Lords. To paraphrase Sir Erskine May's remark on British budgetary procedure, it is then for the Governor in Council to demand such money as may be needed for the Dominion public service, for the House of Commons to grant it, and for the Senate to assent to the grant.

Introduction of the Budget in Parliament

In conformity with British budgetary practice, the Canadian rule is that no measures authorizing the spending of public moneys may be considered by Parliament except those which have been recommended to it by the Executive. The British North America Act carries a provision (sec. 54) to this effect. "It shall not be lawful," runs the provision, "for the House of Commons to adopt or pass any vote, resolution, address, or bill for the appropriation of any part of the public revenue,

or of any tax or impost, to any purpose that has not been first recommended to that House by message of the Governor General in the session in which such vote, resolution, address, or bill is proposed." This provision does not go quite as far as the standing order of the British House of Commons, which declares that no petition shall be received for any sum relating to the public service. But Bourinot is authority for the statement that under the decisions of its Speakers this prohibition has also applied in the Dominion House of Commons.

Speaking of executive initiative of the budget under the British financial system, Young says: [2]

> Limitation of financial initiative to the Executive is one of the sheet anchors of good government. The balancing of revenue and expenditure is a nice and delicate operation; only the Executive can have the double knowledge needed for it, of what is needed on the one hand and how much it will cost, and on the other hand of how much the taxes are likely to yield. It is the Executive which has sole responsibility for the national revenue and expenditure, and it is the Executive which should have control over them. Its plans once made must be rigidly adhered to; were the balance of revenue and expenditure liable to be upset by an ill-informed, sudden, and comparatively irresponsible action on the part of a private member [of the House of Commons], the nation's finances must soon fall into wild disorder.

A practice has grown up in the Dominion House of Commons of allowing private members to introduce resolutions, "when they do not directly involve the expenditure of public money, but simply express an abstract opinion on a matter which may necessitate a future grant." Such resolutions, however, are framed in general terms and do not bind the House to any future legislation on the subject. They are merely intended to point out to the Executive the importance and necessity of such expenditure.

Presentation of the Expenditure Estimates

The main estimates are usually presented to the House of Commons around the first of February, immediately following the opening of the annual session of Parliament. The supplementary and further supplementary estimates may be presented at any time of the year that Parliament happens to be in session, but ordinarily they follow the main estimates by a few days or weeks. All estimates, as a rule, are presented to the House of Commons by the Minister of Finance. In every instance they are accompanied by a formal message from the Governor General transmitting them to the House. This message is read by the Speaker of the House and the estimates are referred to the Committee of Supply.

And so the expenditure estimates are placed before Parliament for

[2] E. Hilton Young, *The System of National Finance* (3d ed.,1936), p. 41.

consideration. One half of the Dominion's budget is thus definitely launched by the Executive pursuant to an earlier promise made by the Governor General. In his formal speech delivered to the two chambers at the opening of the parliamentary session, the Governor General, addressing directly the members of the House of Commons, usually states that "the public accounts for the last fiscal year and the estimates for the coming fiscal year" will be presented to them without delay. And prior to the outbreak of World War II he often added something to the effect that "These estimates will reflect the continuance of the policy of my ministers to exercise every economy, compatible with the proper administration of the state, until more favourable economic conditions shall have materially augmented the current national revenues."

Delivery of the Budget Speech

The second half of the Dominion's budget, that is, the proposed means of financing the expenditure estimates, together with a balanced statement of anticipated revenues and estimated expenditures, is "brought down" to the House of Commons in the budget speech. This speech, as pointed out in the preceding chapter, is delivered by the Minister of Finance, usually shortly after the opening of the fiscal year which is some time during April or May. Occasionally it may be made as early as February or as late as June. Its delivery immediately follows a motion by the Minister of Finance "That Mr. Speaker do now leave the chair for the House to go into Committee of Ways and Means."

According to British usage, the budget speech is usually delivered in the late afternoon,[3] the Minister of Finance beginning his discussion of the Dominion's finances about three o'clock and concluding with his revenue proposals about five. Thus the Minister delays "his announcement of remission or imposition of taxation until after the Stock Exchange has closed" for the day. A full attendance of the members of the House is usually assured for the occasion, but public interest in the pronouncements of the speech never seems to run quite as high as it does in Great Britain on "opening the budget." One reason is that the placing of the budget before the Dominion House of Commons has not yet assumed the role of "the most important scene in the drama of Government." Since the days of Pitt, Great Britain has succeeded in dramatizing the budget by making the budget speech the "political highwater mark" of the parliamentary session. Gladstone contributed greatly to the historical importance of this occasion. During his long political career, he opened the budget thirteen different times with such

[3] Occasionally the Canadian budget speech is delivered in the evening, the delivery beginning about eight o'clock.

great ability and charm that one of his admirers referred to his speeches as "setting figures to music."

But withal the Canadian method of opening the budget is far superior to the American practice. The President's submission of the United States budget to Congress is usually a mere incident in a day's work, passing almost unnoticed. The President does not deliver his budget message in person to that body; instead, it is read to the lower house by a legislative clerk, whose monotonous voice fails completely to stir his auditors. The performance is largely lacking in the elements that tend to arouse the interest of congressmen, and certainly is without much of the news value that appeals to the public.[4]

Parliamentary Consideration of the Budget

Every session of the Dominion Parliament is opened with a speech by the Governor General, outlining the intentions and expectations of the Government. This speech is a short statement prepared by the Cabinet and read to both houses, meeting as one body for the occasion. Thereafter the first business in the House of Commons, following the administering of oaths of office or similar business, is to move "the humble thanks of this House to His Excellency, the Governor General, for the gracious speech which he has been pleased to make to both houses of Parliament." This occasion is always seized upon by the Opposition members to voice their disapproval of the Government's policies, and it also enables the new members of the House to make their debut to the public. The debate upon the motion of an "Address in reply to the Governor General's speech," as it is called, may go on for several sittings of the House. When the motion has been adopted and the "Address in reply" by the House dutifully presented to the Governor General by the Speaker, accompanied by "such members of the House as are of the honourable Privy Council," the Government is ready to settle down to its legislative program. But it has to prepare the way for its financial measures which are to be discussed in the House, and accordingly one of the Government's first acts is to move for the Committee of Supply and the Committee of Ways and Means to be set up. This is done by a motion,

[4] Indeed, the President's financial plan practically ceases to be a budget once it is submitted to Congress. It is actually parceled out to committees in both houses, each of which is free to add or subtract items, or to modify items so that they have little or no resemblance to the original proposals. Even the administration's leaders in the two houses feel themselves free to abandon the President's proposals with respect either to revenue or expenditure, and neither the President's political fortune nor that of any member of either house is involved in this planless treatment of what purports to be a definite financial proposal for the conduct of the government. This serves to explain something of why so little news value attaches to the presentation of the President's budget to Congress.

usually made by the Minister of Finance, that the House of Commons will on its next sitting day resolve itself into Committee of Supply, or into Committee of Ways and Means. The motion is then put on the "order paper" or calendar of the House. When the House desires to proceed with the motion, the "order of the day" is read by the Clerk, and a motion "that Mr. Speaker do now leave the chair" and the House resolve itself into Committee of Supply, or Committee of Ways and Means, is moved by the Minister of Finance (sometimes by another minister). If approved, the House of Commons thereupon goes into committee.

The Committee of Supply and the Committee of Ways and Means are each a committee of the whole House, that is, of the entire membership. Each committee is simply the House of Commons acting under another name. It is presided over by a chairman, usually the Chairman of Committees, instead of by the Speaker, and the members are free to talk as often as they like upon a motion, instead of only once as at other times. Otherwise there is practically no difference in procedure between the House sitting as the House and the House sitting as a committee. The Committee of Supply authorizes the annual expenditures by voting the estimates which are presented to it. The Committee of Ways and Means performs a dual function, as its name implies. It authorizes the issue from the Consolidated Revenue Fund of an amount equal to the total voted by the Committee of Supply, thus providing a way for the Government to meet its expenditures; it also authorizes taxes to produce income for the Consolidated Revenue Fund as the means whereby the Government is to pay its way. The first part of this procedure is supposed to give the House of Commons a double control of the expenditures of the Executive, since the Committee of Supply criticizes all expenditures in detail and the Committee of Ways and Means can withhold its consent to making any expenditure at all. The second part of the procedure enables the Committee of Ways and Means to require the Minister of Finance "to open" the budget before it, prior to its authorization of taxes and other means whereby the Executive can pay for the governmental services.

Procedure in Obtaining Supply

The procedure for going into Committee of Supply, as sketched above, may be interrupted. Any member of the House of Commons has a right to discuss matters relating to supply at this point, or to move an intercepting motion, provided he obtains the leave of the House. The purpose of such a motion, often resorted to by the Opposition members, is to embarrass the Government, or to obstruct it in proceeding with the

business of finance. A motion of this kind takes precedence over the motion of the Minister of Finance that the House resolve itself into committee. The debate which follows may last for several sittings of the House before the motion is finally brought to a vote.

The practice of an intercepting motion is the survival of an old British custom which permits the airing of grievances before the House of Commons proceeds to deal with supply. "Grievances before supply" is termed by Young "another fossil embedded in procedure." It rests upon the constitutional rule, says Young, that "before money is granted to the Crown, the Crown must listen to its subjects' complaints and promise them their *quid pro quo*." He continues: [5]

> The rule, vital in the sixteenth century, is meaningless now that Parliament holds the remedy for grievances in its own hand. It serves merely to provide an occasion for a debate of a general character on some question of topical interest. . . . The subject matter of the "grievance" motion must have some relevancy to the estimates to be considered. Thus the debate covers some of the ground which must be covered afterwards in committee; and its utility, now that its constitutional purpose no longer exists, is very questionable. The best thing that can be said for it is that it gives a private member one of his few chances of raising a subject and of bringing a minister to book over an abuse, since the choice of subject depends on the ballot and not on the whips. In any case not so much time is now spent on these debates as of old.

Once the Dominion House of Commons goes into Committee of Supply, the established procedure requires this committee to examine vote by vote the estimates which have been laid before the House by the Executive. The number of votes, as pointed out in the preceding chapter, was increased by approximately 200 under the new form of the estimates adopted for the fiscal year 1938–39, and now totals about 690 in the aggregate. Since a separate resolution must be passed in the committee for each vote, the work of the committee has been considerably increased by the additional votes. More time is required for the members to discuss the estimates and for the ministers to justify their requests. It is presumed, however, that the more detailed votes afford greater information to the members in considering the estimates. This being the case, the increased number of votes is justified, even though it may tend to restrict the actions of the Executive in spending the appropriations.

In order that the members of the House may be informed for the discussion of the estimates in Committee of Supply, they are each provided with a printed copy of the estimates and also with a copy of the detailed Public Accounts, containing the Auditor General's comments and criticisms on the governmental expenditures for the past fiscal year.

[5] E. Hilton Young, *The System of National Finance* (3d ed., 1936), p. 48.

The debate on the resolutions proposed by the chairman in Committee of Supply is unlimited, and the members are allowed to speak as often as they wish. No increase in any vote covered by a resolution can, however, be moved in the committee. If the members of the committee feel that it is advisable to increase a proposed vote, they can do no more than to suggest it to the Government. If the Cabinet accepts the suggestion, another message is "brought down" from the Governor General amending the vote and increasing its amount as originally specified in the estimates. When the members of the committee are dissatisfied with the contents of a resolution, the only amendment which they can adopt is one reducing the amount of the vote. The members can then show the impropriety of the Government's estimate while the amendment is under discussion. It is not within the power of the committee to recommend to the House another method of expenditure. Motions to reduce the amount of a vote, however, are seldom made.

Unless the Government gives notice to the contrary, the Committee of Supply takes up the estimates for consideration in their regular order, which is by departments arranged alphabetically. The Prime Minister may, however, select the departmental estimates to be discussed, and it is an established convention that only those so selected will be taken up. Sometimes the Government chooses to bring the agricultural and public works estimates first before the Committee of Supply, since more members are interested in them. When the estimates of a particular department are under consideration, the established practice is for the minister responsible for that department to be on hand to explain the various votes and, if need be, to defend them before the committee. In the case of a large department, the minister may bring his deputy, or other subordinate official, onto the floor to supply him with any needed information.

The party whips usually have the task of arranging the details of the debates in Committee of Supply. After each of its sittings, the Committee of Supply reports progress to the Speaker and obtains the leave of the House to sit again until it has finished its consideration of the expenditure estimates. In the early days of the session the estimates are usually discussed in committee with considerable interest, later the attention of the House flags, and toward the end of the session large sums are often voted with little or no discussion. But this experience is common to nearly all popular legislative chambers.

As soon as the Committee of Supply has finished going over the estimates and has passed the resolutions covering all the votes, the action of the committee is reported to the House. The acceptance of this report may be made the occasion for further debate, but this time each

member of the House is allowed to speak only once. When the report of the Committee of Supply is accepted, the Minister of Finance thereupon moves that the House go into Committee of Ways and Means for the purpose of considering resolutions to appropriate certain amounts out of the Consolidated Revenue Fund "towards making good the supply granted to His Majesty on account of certain expenses of the public services." These resolutions of the Committee of Ways and Means must contain amounts which do not exceed those already voted in Committee of Supply. The Committee of Ways and Means cannot debate what has already been decided in Supply, and it cannot amend the resolutions in any way. The passing of the resolutions by the committee is largely a formal matter. Although these resolutions duplicate in a way the work of Supply, they must be passed by the Committee of Ways and Means, reported back to the House and agreed to, before a supply or appropriation bill carrying the amounts of the voted estimates can be introduced in the House of Commons. By this procedure the members of the House are given an additional opportunity to pass upon the Government's requests for appropriations. But Young questions the value of such procedure. "Historical value it may have," he says, "as a relic of the time when the House was concerned to put every possible check upon an independent Executive. Practical value, now that the responsibility of the Executive to Parliament is secured, it would seem to have none." [6]

Procedure in Providing Ways and Means

The motion to go into Committee of Ways and Means is subject to debate as in the case of the motion to go into Committee of Supply. This debate may last for several sittings of the House of Commons. Once the House has gone into Committee of Ways and Means, its first work is usually the consideration of the expenditure votes which have been made in Committee of Supply, a procedure described in the preceding paragraph. But this is only a part, and a minor part at that, of the financial work of the Committee of Ways and Means. After it has decided that the sums voted in Supply are to be granted, it has to provide the means by which they are to be met. And there is only one way by which these sums can be met; that is, by issues out of the Consolidated Revenue Fund, which is the fund into which all public moneys are paid. Herein lies a subtle, but nevertheless a valid, distinction according to parliamentary usage—one that requires a separate and parallel series of resolutions to be voted by the Committee of Ways and Means.

While the Committee of Supply is concerned with expenditure, the Committee of Ways and Means is concerned principally with revenue.

[6] E. Hilton Young, *The System of National Finance* (3d ed., 1936), p. 57.

Its procedure is practically the same as that of Supply, already discussed above. Its chief business is to hear and discuss the proposals of the Minister of Finance for the provision of moneys to meet the grants voted in Supply and to take action thereon. Accordingly the budget speech is delivered before the Committee of Ways and Means, and at the conclusion of this speech the resolutions providing for changes in the revenue laws are presented to it by the Minister of Finance. The debate which follows on these resolutions is usually a long and often irrelevant discussion of the general policy of the Government. It proceeds, as has been said, "until the eloquence of the members flags or the patience of the Government is exhausted, whichever happens first," and it concludes with the adoption of the resolutions. To permit full consideration, the resolutions of the Committee of Ways and Means are not ordinarily reported to the House on the same day they are agreed to in committee. When they are reported to the House, they stand as read for the first time and are not discussed or debated. On the second reading, each resolution is read separately and the question put on whether or not the committee's report is to be concurred in. Debate is then in order and amendments may be allowed. It sometimes happens that resolutions are withdrawn after their second reading or referred back to the committee for the purpose of amendment.

Since the revenue proposals of the Minister of Finance are those of the Cabinet and its party, their rejection or modification in any of their basic elements would cause the Ministry to fall. But as regards detailed provisions there is a wide understanding that the Government is to have a certain freedom to accept criticism, and even defeat, without considering that its existence is involved. Speaking of British practice, Lord John Russell held that "questions of taxation are questions upon which the House of Commons, representing the country, have peculiar claims to have their opinion listened to, and upon which the Executive Government may very fairly, without any loss of dignity—provided that they maintain sufficient revenue for the credit of the country and for its establishments—reconsider any particular measure of finance they have proposed." But this liberty on the part of the Ministry applies mainly to questions of taxation, and with much less latitude to questions of expenditure. A defeat of the Government in Committee of Supply is quite likely to involve its fall. A snap vote may, however, be taken in Committee of Supply, as has happened on some occasions in the Dominion, resulting in the defeat of the Government, but such action is not regarded as final. The practice is to follow up such a defeat by a formal motion of confidence. If the Government is then defeated, it retires; otherwise, it continues to carry on.

On the question of the Cabinet's proposals for changes in the revenue laws of the Dominion, Bourinot states [7] that:

> . . . all the authorities go to show that, when the Government has formally submitted to the House the question for revision of customs and excise duties, it is competent for a member "to propose in committee to substitute another tax of equivalent amount for that proposed by the ministers, the necessity of the new taxation to a given extent being declared on behalf of the Crown." It is also competent for any member to propose another scheme of taxation for the same purpose, as a substitute for the Government plan. But it is not in order to propose a new and distinct tax, which is not a mere increase or diminution of a duty upon an article already recommended by the Government for taxation, though it is the function of this committee to impose rather than to repeal taxes. A proposition for the repeal of a duty is in order, and cases will be found where a proposed duty has been struck out in committee.

As in Great Britain, the practice is to put the resolutions of the Committee of Ways and Means, changing excise and customs duties, immediately into force before they receive definite statutory form. In the event a resolution fails to secure statutory enactment, the taxes thus levied are refunded, and the Government obtains from Parliament an act of indemnity. But ordinarily the chances are very slight that the House of Commons will refuse to adopt the resolutions of the Committee of Ways and Means.

Efficacy of Committee of the Whole

The efficacy of handling the budget through the Committee of Supply and the Committee of Ways and Means, described above, may be viewed in terms of the action of similar committees in the British House of Commons. In criticizing the tax proposals of the British Cabinet and in rejecting or reducing them, the Committee of Ways and Means, says Muir,[8] "is a suitable body for the purpose: it is a committee of the whole House, but the whole House is interested in the taxes that have to be paid by the whole community, and therefore the discussions are real discussions." But as much cannot be said for the action of the whole House when it switches to Committee of Supply. It is then hampered by the "outworn rules of procedure in Supply," by the political character of financial criticism and by the lack of information for parliamentary debate on expenditures. Davenport [9] remarks that "the House of Commons pursues national economy with the same rules of procedure it used when disputing with Kings." He goes on to say that the rules of today are those

[7] Sir John Bourinot, *"Parliamentary Procedure and Practice in the Dominion of Canada* (4th ed., 1916), p. 431.

[8] Ramsay Muir, *How Britain Is Governed* (1933), p. 225.

[9] E. H. Davenport, *Parliament and the Taxpayer* (1918), pp. 116, 127, and 133.

originated in the seventeenth and early eighteenth centuries. "It was in those days considered the first duty of all patriotic Parliament men to delay, postpone, or obstruct the royal demands for money, and their rules of procedure were ingeniously devised with that end in view. Yet time is still wasted at Westminster today by conforming to these ancient rules, albeit there is no such distrust, financially, of the executive power, but, on the contrary, an advantage in dealing expeditiously with the increasing volume of government financial business." In the development of the party system, parliamentary debates on the budget became less financial and more political until, as Davenport puts it, financial criticism almost disappeared. Today, when the Opposition chooses the supply proposals for discussion, which it has the privilege of doing, it "selects the subject which is the most likely to combine an attack on the Government." Hence these proposals are debated from the viewpoint of politics rather than finance, and an adverse vote in Committee of Supply is equivalent to a vote of want of confidence.

The Select Committee on National Expenditure of 1917–18 maintained that the Committee of Supply was without adequate information as a basis for criticizing the expenditure estimates. A proposal was therefore made for the establishment of two or three standing committees on estimates, composed of fifteen members each, which could be provided with expert assistance in studying the expenditure estimates. These committees would "report to the House when it went into Committee of Supply on any block of estimates which they had been able to examine," and would "make any suggestions as to possible reductions of expenditure which seemed to them desirable." In fact, one Estimates Committee had already been set up at that time, but it proved ineffective because the task was too large for it without staff assistance. So far, nothing has been done by Parliament to meet this situation, and Muir suggests[10] as the reason

> . . . that the Cabinet is exceedingly jealous of any invasion of "Cabinet responsibility"—even when the Cabinet itself has no time to deal with the problems that need consideration, and would be quite unable to tackle them if it had. . . . And behind the Cabinet is the bureaucracy of the departments, hating the idea of any meddlesome interference by Parliament, and probably, thanking its stars that the estimates are presented in such a form as to make such interference impracticable.

With all of its apparent defects, many of which are the result of antiquated legislative procedure, committee of the whole under the British system has several virtues. If applied in the Congress of the United States it would go a long way toward remedying the worst ills

[10] Ramsay Muir, *op. cit.*, p. 230.

of the standing committee system. It would permit open discussion on the legislative floor, allowing dissenting members of the majority party to express themselves without incurring the charge of party treason, and it would encourage criticism by the members of the opposition party or parties. With the Executive and his chief officers present on the floor, committee of the whole would enable the congressmen to question them freely on the budget and to hear their rebuttals to the findings and reports of the standing committees. As a matter of fact, it is now customary for the lower house of Congress upon receiving the appropriation bills from its standing committee to go into committee of the whole for consideration of these bills. But this is mainly for the purpose of discussing and taking action on the recommendations of the standing committee.

The Role of the Opposition

Canada—and for that matter the other British dominions—has not made the most of the Opposition's role in parliamentary consideration of the budget. Nevertheless, it is understood that an alert Opposition is essential to the successful working of the Canadian governmental system. Steps were taken by the Dominion Parliament as far back as 1905 to make the Opposition more effective. At that time a statute was enacted granting "to the member occupying the recognized position of Leader of the Opposition in the House of Commons" the same salary as was paid to a cabinet minister. In the course of the debate on this measure, Sir Wilfrid Laurier, then Prime Minister, said: [11]

> In giving this day an indemnity to the recognized person who occupies the position of Leader of the Opposition, I do not admit that we are making a departure from our system of constitutional government; I contend that we are simply coming to a new stage in the development of constitutional government. It is a strange fact, but it is a fact which is known to everybody that the very basis of our system of constitutional government is that the Cabinet has no recognized position under the law. The system has been gradually evolved . . . by the nation which has been the head and front and mother of all constitutional parliaments everywhere. . . . The Leader of the Opposition under our system is just as much a part of the constitutional system of government as the Prime Minister himself. We acknowledge that it is better for the country, that it is indeed essential for the country that the shades of opinion which are represented on both sides of this House should be placed as far as possible on a footing of equality and that we should have a strong opposition to voice the views of those who do not think with the majority, and moreover that we should have that legitimate criticism, not only legitimate criticism, but necessary criticism which is essential to good government in any land.

Prime Minister Sir Robert Borden once said that "a Government's

[11] *House of Commons Debates*, 1905, p. 9729.

strength was to be measured by its power of resistance to the demands for expenditure by camp followers and partisans." If this is true, the chances of its refusing appropriations for unnecessary or improper objects are greatly improved whenever the Opposition party is well represented and ably directed in the House of Commons. It is strange that Canadian party leaders have not taken more steps to make the Opposition criticism effective. Yet, as we shall see later, they have countenanced a procedure in connection with the meetings of the Public Accounts Committee that practically prevents the Opposition from launching a thorough investigation of government expenditures. Such a policy is shortsighted, to say the least, since there is always the tendency for a Government to become lax and even corrupt after it has been in power for a considerable period of time. If the Opposition were allowed free rein in its investigations, there is greater likelihood that improper expenditures would be forestalled or at least discovered before serious abuses could develop. Not only is the Opposition prevented from properly investigating past expenditures, but its activities, as far as budgetary procedure is concerned, are confined to a cursory examination of proposed expenditures as revealed in the estimates. And its examination of the estimates is usually based upon inadequate facts. The Government does not divulge to the Opposition any more facts than it has to, although it may take its own party into its confidence.[12] Unfortunately, too, if the Government is sure of its majority, it will pay little heed to any criticism. That is the way the party system seems to work in Canada. In the light of these practices, Canadian parliamentary procedure would seem to be "much more concerned with the form than with the substance of finance."

It has been suggested that the House of Commons should create a small standing committee, called an "estimates committee," to which the estimates might be referred for examination before being passed upon by the House. This committee would have authority to quiz administrative officers and to call for papers when considered advisable; in short, it would ascertain full explanations of the several votes sought

[12] As far back as 1910 a member of the House of Commons, Mr. Foster, complained of this procedure (*House of Commons Debates*, 1910–11, p. 6603). "And on the opposition side," he said, "whatever may be our energy and disposition to work, it is impossible under present conditions, when $115,000,000 of estimates are turned loose on the House, without any information in the estimates themselves, it is absolutely impossible for the opposition to exercise any effective check. All they can do is to wheedle out from the minister in charge, who is anxious to give no more information than he is absolutely obliged to give, what details they can." Since that time the procedure has not been materially changed, and the amount of the estimates has increased many times.

in the estimates. Such a committee, it was thought, would relieve the House of "the delays now occurring in Committee of Supply and would tend to shorten the session." The extent to which the Opposition would be represented on this committee, an important consideration from the standpoint of effective criticism, was not suggested. To all intents and purposes, the committee would be quite similar to the one set up by the British House of Commons in 1912 to act as an advisory body to the House in the examination and criticism of the estimates, particularly with a view to bringing about economies. But British authorities are now agreed that it "has proved of little use as an instrument of economy." The job is too big for one committee of fifteen members, since the whole of the estimates are not scrutinized by this committee except once in about every ten years. Then, too, the committee is without trained and experienced assistance such as the Auditor General provides for the Public Accounts Committee. The Dominion House of Commons would have to provide against these shortcomings before it could expect an estimates committee, if created, to work satisfactorily.

Authorization and Voting of the Budget

According to British usage, the authorization and the voting of the budget are quite separate and distinct procedures. The estimates of expenditure, as we have seen, are authorized by the Dominion House of Commons sitting as a Committee of Supply and formally approved by the same body sitting as a Committee of Ways and Means. Several days or weeks later they are voted by the House in the form of an appropriation act. Likewise, the tax proposals to finance the budget are authorized by resolutions of the Committee of Ways and Means adopted immediately after the budget speech has been delivered by the Minister of Finance. But they are not formally voted by the House until some time later.

American usage has unfortunately confused these terms. Congress, as a whole, does not discuss the estimates or budgetary proposals as such, but only the provisions which appear in the appropriation and revenue bills submitted to it by its standing committees. Any debate on the budget, therefore, usually presupposes the introduction of such bills in one or both houses of Congress, and the authorization of budgetary proposals is concurrent with the voting or passage of these bills. This means that congressional discussion of the budget, except under unusual circumstances, is both limited and poorly informed; only the committee members know much about the proposals, and they constitute but a small group in the total membership of Congress.

The Supply and Revenue Measures

The Dominion supply, or appropriation, measures appear after the authorization of the votes which make up the various items of these measures. In other words, the proposed expenditures have been approved in Committee of Supply, reapproved on the Report of Supply, approved a third time in Committee of Ways and Means, and a fourth time in Report of Ways and Means. And yet they do not have the force of law, for the House of Commons cannot give financial proposals such force by means of its own resolutions alone. All financial resolutions of the House of Commons, before they can become law, must be presented to the Senate for its approval and to the Crown for its assent. They must therefore be embodied in a bill or bills and pass through all the regular stages of first reading, second reading, committee report if necessary, and third reading, both in the House of Commons and in the Senate, and finally they must obtain the royal assent or signature of the Governor General.[13] Both the supply and the revenue bills are drafted at the direction of the Minister of Finance as soon as the corresponding resolutions have been approved by the House of Commons.

As pointed out in the concluding pages of the preceding chapter, each parliamentary session passes at least three supply bills, an interim supply bill, a further supplementary supply bill, and a main supply bill. In some sessions two interim supply bills and two or three further supplementary supply bills are passed, but rarely is the total more than six bills. Even so, the Dominion practice has not whittled down the number of supply bills to the British minimum of one appropriation bill passed near the end of the parliamentary session, plus one bill providing "votes on account" passed two or three months earlier at the opening of the fiscal year. The interim supply bill in Canada carries the equivalent of the "votes on account" under the British usage, as we shall explain presently. The further supplementary supply bill provides amounts which go to supplement the appropriations of the preceding fiscal year. The main supply bill provides the total appropriation requirements, itemized by "votes," for the current fiscal year and actually appropriates the two-thirds, five-sixths, or eleven-twelfths not already appropriated in lump-sum amount by the interim supply bill or bills.

The revenue bills are usually in the form of amendments to existing tax laws. Tax legislation in Canada, as in the United States, is as a rule permanent. None of the important Dominion taxes is annually imposed,

[13] Officially, the Dominion Parliament is only in session when the House of Commons, the Senate, and the Governor General are all present. That is to say, Parliament really meets only three or four times a year, although the House of Commons and the Senate may be sitting individually for periods of six months or more.

as in the case of the British income tax. But Canadian tax changes are made effective, as in Great Britain, as soon as the resolutions are approved by the House of Commons; they are not deferred, as in the United States, until the bills are enacted some time later, thus permitting some taxpayers to take steps to avoid or reduce the payment of proposed taxes.

"Interim Supply" Bills

Following the British custom, the Dominion Parliament does not usually enact the main supply bill until some time after the opening of the fiscal year on April 1. Since appropriations for the preceding fiscal year lapse on March 31, and are not available for the expenditures of the succeeding fiscal year, provisions must be made to carry on the functions of the government until such time as the main supply bill is enacted. These provisions are made through the passage of a bill carrying what is known as "interim supply," which is the equivalent of, though not exactly the same as, the British "votes on account." This bill carries in one lump sum a fractional proportion of all the items in the main estimates, usually one-twelfth or one-sixth of the total amount of these estimates; that is, one month's or two months' supply. Before agreeing to the passage of this bill, the Opposition Leader in the House of Commons ordinarily has a verbal understanding with the Government that any items in the estimates may still be criticized or objected to by the Opposition when considered in Committee of Supply. This means, in turn, that the Opposition Leader can also get from the Government certain promises with respect to the legislation to be discussed in the House and the opportunities to be given to the Opposition to debate various matters.

Sometimes two interim supply bills are passed, one following the other at a month's or two months' interval, so that in normal times as much as a third of the fiscal year's requirements is thus made available for expenditure. This becomes necessary when the main supply bill is not voted until some time in July. Ordinarily the first interim supply bill, and usually the only one for the year, is passed just before the end of March so that it may receive the Governor General's assent on or before March 31. Funds for expenditure are thus provided immediately upon the opening of the new fiscal year. But it occasionally happens that this bill does not pass Parliament and receive the royal assent until after April 1. For example, in 1938 it was not assented to until April 7.[14] In this instance no expenditures were made under the estimates for the new fiscal year during the first seven days of April, and, for that matter, for a day afterwards until supply was released by the Crown.

[14] Again in 1939, the interim supply bill was not assented to until April 5.

Except in the case of Governor General's warrants, issues can only be made under the law when there is a supply act. No serious inconvenience, however, resulted because of this delay, since the first regular pay roll date of the fiscal year comes on April 15. The only other accounts which cannot be easily held up are the traveling advances, and fortunately these are few in number at that season of the year.

According to American practice, all bills making appropriations for the fiscal year are usually enacted before the opening of that year. The need for interim supply is therefore eliminated. While this procedure makes it possible for the budget plan of expenditures to be followed during the entire fiscal year, it has the disadvantage of requiring the preparation of the estimates some six, or eight, or even ten months prior to the beginning of the year. Hence these estimates are not as accurate as if they were prepared later. The information upon which they are based is almost a year behind the period to which they apply. But this disadvantage seems to be offset, at least in the opinion of American finance officers, by the assurance of definite appropriations available to begin the work of the fiscal year.

Votes of Credit

Mention should be made at this point of a British custom that has been carried into the Dominion's practice; that is, the votes of credit. In Great Britain, supplementary estimates are used to cover all ordinary emergencies, but sometimes extraordinary and critical emergencies arise which cannot be met by the slow and restricted procedure of these estimates. When, for example, the nation is threatened with war, the Cabinet requires a large sum in a hurry, and is not able to say in detail how this sum is to be applied. Under such circumstances, the Cabinet will ask the House of Commons for whatever sum is needed on what is called a "vote of credit," specifying in quite general terms how the money is to be spent. Then the House in Committee will grant the requested sum in gross to the Cabinet, leaving the latter to distribute the money as needed. No part of the sum so voted may be used except for the general purpose stated; it may not be used to make up deficiencies in the ordinary votes.

Following the British practice, the Dominion House of Commons has on occasions granted votes of credit to the Cabinet, the sums so granted to be expended as found necessary. For example, upon the outbreak of World War I in August, 1914, a credit of $50,000,000 was at once voted, and again on September 12, 1939, at the outbreak of World War II a credit (or "war appropriation," as it was called) of $100,000,000 was voted.

Expenditures without Previous Parliamentary Sanction

With one exception, the Dominion government adheres to the rule that an issue of public money may be made only on the authority of a specific parliamentary appropriation. This exception relates to the use of what are known as Governor General's warrants for meeting unforeseen and emergency expenditures. These warrants were used in the British North American colonies long before federation, and were authorized by one of the earliest statutes enacted by the first Dominion Parliament. They have been employed more or less continuously since that time by the Dominion government, and, for that matter, by the provincial governments as well.

The legal authority for the issuance of Governor General's warrants is now carried in section 25 of the Consolidated Revenue and Audit Act of 1931. This section runs as follows:

> If, when Parliament is not in session, any accident happens to any public work or building which requires an immediate outlay for the repair or renewal thereof, or any other occasion arises when any expenditure, not foreseen or provided for by Parliament, is urgently and immediately required for the public good, then upon the report of the Minister [of Finance] that there is no parliamentary provision, and of the minister having charge of the service in question that the necessity is urgent, the Governor in Council may order a special warrant to be prepared, to be signed by the Governor General for the issue of the amount estimated to be required, which shall be placed by the Minister [of Finance] to a special account, against which cheques may issue from time to time, in the usual form, as they are required.

It will be seen from the provisions of this section that Governor General's warrants may be issued only when Parliament is not in session, which has been interpreted to exclude their issue during an adjournment no matter how prolonged. Furthermore, they may be issued only (1) when any accident happens to any public work or building which requires an immediate outlay for the repair or renewal thereof; or (2) when any other occasion arises when any expenditure, not foreseen or provided for by Parliament, is urgently and immediately required for the public good. When either of these circumstances prevail, the minister in charge of the department concerned must make a report certifying that the need is urgent, and the Minister of Finance must be satisfied that there is no parliamentary appropriation available for the purpose. Such conditions having been met, the Governor in Council (the Cabinet, in other words) may order a Governor General's warrant to be issued for the amount required. As a matter of procedure the authority to make expenditures under all such warrants lapses at the end

of the fiscal year in which they are issued just as in the case of ordinary parliamentary appropriations. Then, too, such warrants are, by custom, included in the further supplementary estimates for that fiscal year which are passed by Parliament in the same manner as the ordinary estimates. "While this consideration by Parliament is necessarily given after the event," says Deputy Finance Minister Clark, "the opportunity for criticism, which is always taken, acts as a salutary influence to prevent the use of Governor General's warrants except for the purposes which Parliament had in mind when it passed the enabling provision." [15]

In spite of parliamentary review and criticism, the practice in the Dominion for many years after federation was to issue Governor General's warrants for large amounts and on all sorts of occasions. There were times when the Cabinet, through the use of such warrants, was in effect able to appropriate money freely when Parliament was not in session for such objects as it saw fit, often for ordinary purposes. Perhaps the first major instance of this kind occurred in 1896, when the House of Commons was dissolved without making appropriations to carry on the governmental operations. Laurier, the new Premier, issued some $2,000,000 of Governor General's warrants to meet pay rolls and other expenses, until such time as the new House could be convened to make appropriations. This action was so severely criticized in Parliament that very little use was made of Governor General's warrants for the next twenty years or more. Parliament, at the time, actually considered the possibility of eliminating the use of such warrants.

Resort to the use of special warrants was again necessary in 1926 when the House of Commons was suddenly dissolved without supply being voted. This occasioned what has been called the "wholesale" use of Governor General's warrants. The dissolution took place on July 2, and it was necessary to meet the expenses of the government by warrants for five months, or from July through November. The total so granted was over $80,000,000.[16] The same thing happened again in 1940 when the House was dissolved on January 25, and the new House did not meet until May 16. Governor General's warrants were used to finance the war effort and the cost of government during April and the first part of May. The sums thus made available were later incorporated into one of the appropriation acts.

When Canada's entrance into World War II became simply a matter of days, six Governor General's warrants were issued between August 25 and September 2, 1939, providing over $16,000,000 for calling out militia

[15] W. C. Clark, "Financial Administration of the Government of Canada," *The Canadian Journal of Economics and Political Science*, August, 1938, p. 403.

[16] Information supplied by W. C. Ronson, former Assistant Deputy Minister of Finance.

units, bringing the air force up to full strength, and otherwise promoting national security. Subsequently, it was directed that these warrants should form a part of the war credit of $100,000,000 granted by Parliament, and in consequence thereof the expenditures incurred under them were charged to the "war appropriation."

During the fiscal year 1939–40, thirteen other special warrants, amounting to over $2,000,000 were also issued to finance departmental expenditures. The Auditor General, while not criticizing the uses to which the moneys from these warrants were applied, took exception to the period against which the expenditures were charged.

During the nine fiscal years immediately preceding World War II, or between April 1, 1930, and March 31, 1939, forty-five Governor General's warrants were issued, aggregating $67,000,000 in round figures. Some of these warrants were issued every year except during the fiscal year 1932–33. They ran heaviest during the three fiscal years between 1936 and 1939, when over $66,000,000 of warrants were issued. Most of this money was used for drought relief in the Prairie provinces, largely for the purchase of food and provender. A few millions of it, however, were used to meet the income deficits of the Canadian National Railways.

It appears that the Railways' earnings in January, February, and March are generally poor, and the costs of operation high owing to climatic conditions. At the same time, substantial interest payments must be made for this period. Since the Railways' financial statement is not usually ready for the House of Commons until some time in March, a general understanding seems to exist that assistance, when necessary, will be given to the Railways by the use of Governor General's warrants, rather than through the government's authority as guarantor of the Railways' debt to step in and pay the interest. But any such advance to the Railways is always put off to the last moment, usually the day before the House of Commons meets in regular session in January. And it is not the practice for the government to issue special warrants for any more than the very minimum amount that the Railways must have in order to meet their income deficit, which fortunately was nonexistent during most of the war period.

Although Governor General's warrants appear to have been excessively used at times by the Dominion government, it nevertheless seems necessary to have some such device to meet emergency conditions. Perhaps a maximum limit should be set upon the amount of special warrants which may be issued during normal times in any one fiscal year. Ordinarily, no Cabinet will issue more of these warrants than it can later justify before the House of Commons. The main thing to guard against is that it is usually much easier for the Government to face Parliament with an actual expenditure than with an estimate.

Chapter V

GETTING AND SPENDING DOMINION FUNDS

THE PROCEDURE by which the Dominion Parliament authorizes expenditures, and levies taxes to meet these expenditures, has been described in the previous chapter. It becomes the business of the Dominion Executive to collect and spend the moneys which Parliament has thus granted. This is a rather complex process, which is governed by several acts, by numerous Executive orders, Treasury Board rulings, and financial regulations. The more important of these acts are the British North America Act, the Department of Finance and Treasury Board Act, and the Consolidated Revenue and Audit Act of 1931. The provisions of the last mentioned act now form the legal basis of the existing procedure with respect to the collection, custody, and disbursement of public moneys. They also establish a system of expenditure control and accounting under the direction of a specially created executive officer, the Comptroller of the Treasury, and in addition they make extensive revisions in the auditing methods which existed prior to 1931. These newer procedures will be elaborated upon in the course of this chapter.

COLLECTION AND CUSTODY OF REVENUES

At the outbreak of World War II, about nine-tenths of the total revenues of the Dominion government were collected by the Department of National Revenue. A large part of the remaining tenth came from the Post Office Department and the Department of Finance. Other departments and agencies of the government, in many instances, collected varying amounts of receipts of one kind or another. Under the provisions of the Consolidated Revenue and Audit Act (secs. 3 and 4), all of these moneys are required to be deposited by the collecting officers to the credit of the account of the Receiver General (the Minister of Finance), and these officers must keep a daily record of their receipts which is open

to examination by a representative or agent of the Minister of Finance.

As this procedure actually works out in practice, the collecting officers throughout the country are required to deposit their receipts daily in the local or branch banks which have been designated for this purpose by the Minister of Finance. When a collecting officer receives a remittance in payment of taxes or for other purposes, he issues a receipt to the remitter and enters the amount in a cash book. At the end of each business day, he deposits all remittances to the credit of the Receiver General in the designated local or branch bank. The bank gives him a draft on government account, using a special form furnished to all branches authorized to receive government deposits. At stated intervals, the collecting officer forwards a revenue return or report, together with the drafts on government account, to departmental headquarters at Ottawa. There the department, after verifying and recording each return, makes a consolidation of the returns from all of its collecting officers and forwards it together with the drafts to the Department of Finance. These drafts are then arranged according to banks and deposited each day by the Department of Finance to the Receiver General's account in the Bank of Canada, which in turn clears them back to the chartered banks upon which they have been drawn. The revenue returns rendered by the collecting departments, together with deposit receipts, are forwarded each day by the Department of Finance to the Auditor General for his information and check.

All officers and employees of the Dominion who handle public moneys or have the custody of securities are bonded by the Government Officers' Guarantee Fund, excepting postal employees who are covered by a special guarantee fund. The Officers' Guarantee Fund was established by Order in Council of April 9, 1936, and Parliament voted $20,000 to start the fund. Departments, boards, and commissions contribute each year to the maintenance of the fund. The fund is charged with the amounts lost through defalcation less any sums collected from the defaulters. On March 31, 1947, the fund had a balance of over $496,000. Up to March 31, 1939, there had been only seven defalcations which cost the fund approximately $6,300. This amount was considered small in view of the great number of transactions and the large sums involved. This fact appeared to demonstrate that the cost of premiums paid to indemnity companies over a long period of years had not been warranted by the losses incurred.

The Bank of Canada and the chartered banks—ten in all—with their many branches scattered throughout the Dominion actually serve as the depositories for public funds. These banks are designated by the Minister of Finance. Public funds are allocated to the various banks, says Deputy Finance Minister Clark, "on the basis, generally speaking, of the

relative amount of work done by each bank for the Government, although obviously the division of funds between the Bank of Canada, on the one hand, and of the chartered banks, on the other hand, must take into account general considerations of monetary policy." [1]

The Consolidated Revenue Fund

Following the British precedent of having one consolidated fund, the British North America Act provided for a Consolidated Revenue Fund of Canada into which all Dominion revenues were to be paid. This provision was reiterated in the 1931 revision of the Consolidated Revenue and Audit Act (secs. 3 and 22), with the further stipulation that all public moneys paid to the credit of the Receiver General's account should form the Consolidated Revenue Fund. When once placed in this fund, public moneys cannot be taken out of it except under authority of Parliament. But this does not necessarily mean that all moneys in this fund are subject to the annual appropriating power of Parliament. The fund includes several trust or open accounts which are subject to disbursement under the authority of the specific statutes creating them. These accounts include more than a score of long-established trust funds, the largest of which is the Indian Trust Fund [2] of about $17,500,000. As a result of World War II, a number of trust accounts have recently been added, some of which have grown to quite large amounts. In addition to these trust accounts, there are several other special accounts, such as the Government Annuities Fund, the Retirement Fund, the Superannuation funds, and the Post Office Savings Deposits.

It is maintained that parliamentary control is greatly facilitated by having all receipts paid into the Consolidated Revenue Fund and all disbursements made from it. This is the basic rule upon which the fund operates. But there are a few important exceptions to this rule. In some instances, moneys are deducted from the gross revenue of certain departments and consequently do not get into the Consolidated Revenue Fund. Each year the National Revenue Department deducts from its gross revenue a considerable amount, which it transfers to open accounts and pays out to satisfy claims for drawbacks of customs and ex-

[1] W. C. Clark, "Financial Administration of the Government of Canada," *The Canadian Journal of Economics and Political Science*, August, 1938, p. 409.

[2] "The term 'Indian Trust Fund' is an administrative convenience to identify certain moneys held by the Crown for purposes enumerated in the Indian Act. The Fund is thus freed from the restrictions inherent to an annual parliamentary appropriation. On the other hand, it cannot be drawn upon except for the purposes authorized by the Indian Act and, when these are exhausted, the rules governing Consolidated Revenue Fund disbursements are applicable." Watson Sellar, Comptroller of the Treasury, *Manual of Accounting Instructions for the Offices of the Comptroller of the Treasury*, page 19A.

cise duties and taxes; refunds of customs, excise duties, and taxes, and income and excess profits taxes; and payment for seizures. Section 33 of the Consolidated Revenue and Audit Act permits this procedure. Then, too, the Post Office Department allows certain postmasters to retain moneys which they collect from the sale of stamps for their salaries and allowances and sometimes for other purposes. For the fiscal year 1946–47, postal revenue turned into the Consolidated Revenue Fund amounted to $73,000,000 in round figures, while postmasters were allowed to retain an additional amount approximating $13,000,000. Prior to World War II, sundry refunds made by other departments occasionally aggregated as much as a million dollars, although the amount was usually kept down to around $50,000 a year.

The British North America Act (secs. 103–106) provided that the Consolidated Revenue Fund must be permanently charged with certain preferred expenditures. These expenditures, in the order of preference, were as follows: (1) the costs, charges, and expenses incident to the collection and management of the Dominion revenues; (2) the annual interest on the public debts of the provinces assumed by the Dominion at the time of the union; and (3) the salary of the Governor General to the amount of ten thousand pounds sterling. Aside from these stipulated expenditures, the Consolidated Revenue Fund could be appropriated by Parliament without restriction for the public service. Since 1867 certain changes have been made in these preferred charges on the Fund. The 1931 revision of the Consolidated Revenue and Audit Act (sec. 22) provided that the Fund would be subject to charges in the following order: (1) the costs, charges, and expenses incident to the collection, management, and receipt of Dominion revenues; (2) the salary of the Governor General; (3) the yearly salaries of the judges of the Supreme Court of Canada and of the Exchequer Court of Canada. It was further provided that the grants to the several provinces must be charged to the Fund, payable out of any unappropriated moneys in it.

These legal provisions with regard to the priority of expenditures are, according to Watson Sellar, now Auditor General, "concessions to tradition and not essentials to the wheels of modern government. Their origin is to be found in the strife between Parliament and the Crown over moneys to pay for services under their separate control. On the part of Parliament, the need was to secure funds from the King in order that servants might be engaged to administer acts passed by Parliament. On the Crown's side, it was to make certain that money was available to meet the King's Civil List."[3] Gradually, however, Parliament assumed control over practically all expenditures, and it was then that the rule

[3] *Ibid.*, page 19B.

of priority of charges became a formal matter. It appears that this idea of priorities was carried into the British North America Act as a method of affording some protection against a revival of the state of affairs which had existed many years before in Great Britain.

Issue and Disbursement of Moneys

By virtue of the fact that appropriations in the Dominion, as in Great Britain, are made to the Crown rather than to the Executive or to the various departments, they must be released by the Crown as the preliminary step in expenditure procedure. This step, known as the "release of supply," is now provided for by section 24 of the 1931 revision of the Consolidated Revenue and Audit Act. It is accomplished through the issue by the Governor General of a warrant, "under his sign manual," [4] countersigned by a member of the Treasury Board, authorizing the Minister of Finance to issue the amounts required from time to time to defray the expenses of a specified public service, but not exceeding the total sum so voted or granted by Parliament. However, no release is required for statutory charges to be paid from the unappropriated moneys in the Consolidated Revenue Fund. Release of supply is not entirely a formality, as it is said to be in Great Britain. It permits the monthly rate of expenditure from an appropriation to be reduced during the fiscal year. While this has rarely been done, it has, on occasion, served a useful purpose.[5]

The next step in the expenditure procedure of the Dominion is the issue of moneys out of the Consolidated Revenue Fund. This is a function of the Comptroller of the Treasury under the provisions (sec. 27) of the 1931 revision of the Consolidated Revenue and Audit Act. Prior to that time and dating back as far as 1878, it had been a function of the Auditor General. This earlier procedure had as its essential feature a so-called "letter of credit." As soon as the appropriations had been passed and supply had been released, the various departments made application to the Minister of Finance for a certain part of the moneys granted by Parliament—usually about a month's requirements—to be made available for carrying on their services. These applications were turned over to the Auditor General who satisfied himself that Parliament

[4] "The 'sign manual' is a term applied to the execution by signature of instruments which require the Governor General's own hand. This procedure takes its origin in a dispute which arose during the reign of Elizabeth. After certain moneys were spent, the authority to spend was questioned. It was claimed the Queen had given a verbal release. This was disputed. Two judges were named to make an inquiry. Out of the affair the practice developed of all supply grant releases being authenticated by the use of the sign manual." *Ibid.*, pp. 23–24.

[5] In the opinion of W. C. Ronson, former Assistant Deputy Minister of Finance.

had made the required appropriations, and then authorized the issue of a letter of credit. The Department of Finance issued this letter, signed by the Minister of Finance and countersigned by the Auditor General. The letter directed a bank which had government moneys on deposit (in those days, the Bank of Montreal) to pay all checks drawn upon it by the department to which the letter was issued, up to the amount of the credit extended. Upon receipt of the letter of credit, the responsible departmental officer placed it with the bank indicated and proceeded through his own office or accounting staff to draw checks and disburse the moneys thus made available to the department. Statements of all moneys paid out under each letter of credit were made out in duplicate, and one copy, with the paid checks attached, was sent monthly to the Auditor General, while the other copy was sent to the Minister of Finance. The Auditor General, if satisfied as to the correctness of the statement and the authenticity of the payments, then requested the Minister of Finance to issue a Receiver General check to the bank thus reimbursing it for the advances made under the letter of credit.[6]

In actual practice, the letter of credit procedure, according to Deputy Finance Minister Clark, "made control over departmental expenditures difficult, resulted frequently in over-commitments by the departments, gave rise to a number of defalcations, and made it practically impossible to render accurate and frequent statements" of the obligations and expenditures of the Dominion. One of the main purposes of the 1931 revision of the Consolidated Revenue and Audit Act was to dispense with the letter of credit procedure for making payments.[7]

The present expenditure procedure, as already indicated, places responsibility for issue and disbursement upon the Comptroller of the Treasury. This official is assisted by a number of "accounting officers," who work under his direction and control in the different departments and in various centers throughout the Dominion. Each department makes application to the Comptroller of the Treasury, after having filed certain preliminary information (noted later), for an issue of moneys out of the Consolidated Revenue Fund to defray the expenses of its services. This application, usually accompanied by certain documents and certificates, is examined by the Comptroller or one of his accounting officers in order to ascertain mainly that the requested issue is a proper charge against the parliamentary vote indicated and that the appropriation is not thereby overencumbered. Having determined these things,

[6] In some cases expenditures, such as progress payments on large contracts for public works, subsidies to railways, and subsidies to provinces, were audited before payment by the Auditor General, who thereupon authorized the Minister of Finance to issue a check directly on the Receiver General's account for payment.

[7] R. B. Bennett, in *House of Commons Debates,* 1931, p. 2937.

and before any issue of moneys is made, the Comptroller or an officer designated by him must certify that there is a balance available in the appropriation for the specified service. Thereupon, a Comptroller-of-the-Treasury check,[8] signed and countersigned by two authorized officers of the Comptroller, is issued to the department. This check is drawn —as are all such checks—on the Receiver General, and the authorized payment is immediately entered against the proper appropriation account either in the central office or in a branch office of the Comptroller. The accounting officers in the various branch offices are required to make daily reports of disbursements to the central office at Ottawa, and at the end of each month they must render detailed statements showing the distribution of disbursements by appropriation accounts. Beyond this point, the Comptroller ceases to be responsible for the expenditure procedure.

The Comptroller-of-the-Treasury checks are cleared daily through the main Ottawa branch of each chartered bank to the check adjustment division of the Accounts Branch of the Department of Finance. This is done on the theory that the paid checks should not be returned to the Comptroller or his accounting officers who issued them in the first place. Each weekday morning an average of about 40,000 checks—a yearly total of about 12,000,000 checks—are presented by the banks to the check adjustment division.[9] These checks are examined as to signatures of signing officers and endorsements, reconciled with the accompanying bank statement, and sorted numerically by account numbers which identify the issuing offices. By the afternoon, the banks are reimbursed by a draft on the Receiver General Account in the Bank of Canada or in one of the other banks. At the end of each month, the paid checks are adjusted with the statement of checks issued by the Comptroller of the Treasury, and are then lodged in the custody of the Auditor General, where they are held until destroyed.

Functions of the Comptroller of the Treasury

While the foregoing paragraphs summarize the expenditure procedure, they do not indicate the full scope of the Comptroller's functions. Although these functions relate entirely to expenditures and expenditure control, they are so broad and varied in their nature as to make the establishment of the office of Comptroller of the Treasury in 1931 one of the most important fiscal creations since 1878. Before this office was

[8] Strictly speaking, this instrument is a draft, while the draft later drawn by the Receiver General is really a check.

[9] These numbers represent perhaps a wartime peak of checks drawn.

set up, such control as was exercised over the actual making of expenditures came mainly from the Auditor General, an agent of Parliament, and the administrative and accounting officers of the several departments. The Auditor General's authority was rather limited; he could issue letters of credit to the departments, but he could not stop them from overexpending the appropriations since he did not ordinarily preaudit their payments. The departmental officers, being interested parties in the expenditure transactions, were unlikely to exercise any control which would limit or restrain their activities. The Executive, therefore, had no disinterested agent through which it could enforce control over departmental expenditures; and Parliament had to rely upon the efficacy of a postaudit by the Auditor General as the only check upon violations of its expenditure authorizations.

This situation emphasized the need for readjustment in the fiscal organization and procedure of the Dominion, and also indicated the general nature of the change. The office of Comptroller of the Treasury was therefore set up under the Department of Finance to provide the Executive with an agency which could enforce expenditure control over the departments in accordance with parliamentary authorizations. At the same time the Auditor General's office was made more effective as a final checking and reporting agency upon all financial transactions.

It is already apparent that the main function of the Comptroller of the Treasury is to see that the moneys voted by Parliament are used for the purposes intended, and that no vote for a specific service is exceeded. Section 27 of the Consolidated Revenue and Audit Act directs that the Comptroller must make all issues of money out of the Consolidated Revenue Fund, and that none of these issues may be in excess of any appropriation made by Parliament. The details of issue, described above, as well as the form of the checks and other instruments used, are determined by the Treasury Board. The Comptroller may specify the form of the application for issue and the nature of the documents required to accompany it. At every issue, the Comptroller or one of his officers must certify that there is a balance available in the appropriation from which it is to be paid. All issues must be reported to the Auditor General, together with supporting documents. From these and other provisions, it will be seen that the Comptroller must keep a complete set of appropriation accounts, showing encumbrances and unencumbered balances. As a preliminary step to issue, section 26 of the Consolidated Revenue and Audit Act requires the Comptroller at the beginning of each fiscal year to enter opposite each appropriation all existing contractual obligations or commitments which are proper charges for the year, and to maintain

such records *pari passu* with current operations throughout the year. At the same time the deputy head or other departmental officer charged with the administration of an appropriation made by Parliament must prepare and submit to the Comptroller, in such form as the Treasury Board directs, a classification of the expenditure provided for under such appropriation. This classification, which is ordinarily the same as the one used in submitting the estimate to Parliament, becomes the basis of allotment of the moneys provided by each vote and cannot be varied or amended except with the approval of the Treasury Board.[10] Section 29 of the Consolidated Revenue and Audit Act stipulates that no contract of any nature, involving a charge upon the Consolidated Revenue Fund, may be entered into unless the Comptroller or an officer designated by him has certified that there is a sufficient unencumbered balance available, out of the appropriation authorized by Parliament for the particular service, to pay any commitments under the contract which would come due in the course of the fiscal year. This provision apprises the Comptroller of all departmental contracts, and enables him to control the expenditure obligations of departments.

While the Comptroller's authority with respect to expenditures is not final, it is seldom overruled. Section 35 of the Consolidated Revenue and Audit Act provides that "if the Comptroller declines to cause an issue of public moneys out of the Consolidated Revenue Fund on the ground that the money is not justly due, or that it is in excess of the authority granted by the Governor in Council or that there is no parliamentary authority, or if he is in disagreement with the deputy head of a department charged with the administration of a particular service as to the state of the unencumbered balance of the appropriation authorized for such service, or if the Auditor General objects, then upon a report of the case being submitted, the Treasury Board shall be the judge of the sufficiency of the objections, and may sustain them, or order payment to be made." Under this section the Treasury Board may become the final authority on spending, but this is only in exceptional cases. Ordinarily, the Comptroller of the Treasury makes the final decisions.

To provide the Comptroller with a staff to carry out his functions, the Consolidated Revenue and Audit Act authorizes (sec. 36) the Minister of Finance to designate such accounting officers, clerks, and employees in any department or branch of the public service as he may

[10] This classification, however, is not uniform as between departments, or even within branches of the same department, though for purposes of expense analysis the Comptroller uses an object classification which is more or less uniform. See above, Chapter IV, pp. 65–66.

deem necessary for this purpose. These officers and employees are then placed under the dirction of the Comptroller, and the Governor in Council may transfer them to the Department of Finance. In keeping with this authority, the accounting officers and other employees formerly attached to the different departments have been transferred, with a few exceptions, to the Comptroller. This means that practically all accounting services are centralized under the Comptroller.

There are certain important advantages, says B. G. McIntyre,[11] Comptroller of the Treasury, to such centralization of the accounting work:

> [It] has operated to improve the organization and efficiency of the accounting services, not only in the matter of accounting technique, but in the service rendered to departments as well. It has resulted in the development of greater uniformity in accounting practices through the adoption of standard forms and books of account, wherever practicable. Most important of all, central control has operated to promote the free interchange of ideas between accountants and, through the media of committees, bring together officers of our organization to deal with problems and formulate improvements in the system generally. There are also the advantages gained by uniform interpretation being given throughout the service to acts of Parliament and rules and regulations laid down by the Treasury Board, the Governor in Council, or other authority. These directions, rulings and regulations have been gathered together and printed in the accounting manual, which has been supplied to each accounting office.

In a broader sense, the situation that existed prior to 1931 had created problems for the administration which could only be solved by centralized accounting under direct executive supervision. Once Parliament realized this, it was perfectly ready to transfer the accounting control from the Auditor General to the Executive. And by so doing Parliament did not in the least impair its own authority over the use of Dominion funds. The Executive then became responsible to the House of Commons for the newly delegated powers, while the House retained an Auditor with greatly extended postauditing functions to report to it. "The inherent inconsistency of the former situation, whereby a paid servant of Parliament sought to exercise powers of control over a committee of the legislature which enjoyed the confidence of that body, was removed." [12]

Nearly eighteen years of experience with the workings of the Consolidated Revenue and Audit Act of 1931, a third of that period under war-

[11] B. G. McIntyre, "Cheques, Revenues and Refunds," No. 3, December 5, 1935, p. 3, *Treasury Office Lectures,* 1935–36 Season. Before becoming Comptroller of the Treasury in 1940, Mr. McIntyre was for all practical purposes Assistant Comptroller of the Treasury with the title of Comptroller General.

[12] Herbert R. Balls, "The Development of Government Expenditure Control: The Issue and Audit Phases," *The Canadian Journal of Economics and Political Science,* November, 1944, pp. 474–75.

time conditions, indicates clearly that the new system of expenditure control and responsibility is essentially sound. The overexpenditure of appropriations, which continually happened before 1932, has practically disappeared. From April 1, 1922, to March 31, 1932, the overexpenditure of appropriations amounted to more than $6,000,000. Since the new control was inaugurated, overexpenditures have amounted to only $20,027.09, of which $19,729.48 was incurred during the first year.

> Control of issue and disbursement, supported by prompt reporting and accurate recording of all transactions, has enabled the Comptroller to exercise his issue function effectively. Earlier preparation of accounts and augmented authority over the audit have enabled the Auditor General to report to Parliament without the delay of previous years. And Parliament, with the Auditor General's observations before it, has been fortified with the means to demand fuller accounting from the Executive upon whom it has placed the responsibility for many functions which, in more leisurely times, it assumed itself.[12]

Departmental Commitment Procedure

As a means of budgetary control over expenditures, the major departments of the Dominion government follow a so-called commitment procedure. This procedure dovetails into the departmental classification of expenditures required by section 26 of the Consolidated Revenue and Audit Act, already mentioned above. The breakdown of each vote into objects of expenditure serves to control the amounts which a department may expend during the fiscal year for various purposes. These amounts are then allotted to the different services on a monthly basis. Every month, each outside office forwards to the head office of the department a form setting forth the estimated requirements for operation during the following month. These requirements are estimated by the outside office with the help of the district representative of the Comptroller of the Treasury. The requirements are reviewed and approved at the head office of the department, and a copy as approved is returned to the outside office. The expenditures are then made upon the basis of the approved allotments.

Lapsing of Appropriations

Section 32 of the Consolidated Revenue and Audit Act provides that all "balances of appropriations which remain unexpended at the end of the fiscal year shall lapse and be written off." However, encumbrances against appropriations made during the fiscal year may be paid within a period not exceeding thirty days subsequent to the end of the fiscal year.[13] This procedure approximates that of Great Britain, where, how-

[13] A similar provision (sec. 25 [2]) is inserted with regard to special warrants (Governor General's warrants) issued for urgent expenditure.

ever, the exchequer account is closed promptly at the end of the fiscal year. It has certain advantages over the procedure followed by the United States government; namely, of permitting the outstanding balances of annual appropriations to be available to meet obligations incurred during the fiscal year for a period of two years thereafter. Such procedure, in effect, keeps the appropriation accounts open for three years, and greatly increases the difficulties of ascertaining the exact condition of the United States Treasury at the close of any fiscal year. At the same time, it contributes to defective financial reports and, consequently, to incomplete information for the preparation of the national budget.

In the case of accountable advances to departmental officers, the Dominion Consolidated Revenue and Audit Act requires them to be repaid or accounted for within fifteen days after the termination of the fiscal year. The Treasury Board, however, may extend this time, upon recommendation of the Comptroller, but not beyond sixty days after the end of the fiscal year. A copy of the Board's ruling in this case must be immediately delivered to the Auditor General.

The prompt lapsing of appropriations often makes it necessary for the Dominion Parliament to revote amounts which have already been granted. This happens most frequently in the case of public improvements, where the amounts appropriated are not expended within the fiscal year because the departments are unable to complete the work. Parliament in this case usually revotes the unused balance of the original appropriation. Sometimes the appropriation for an improvement is revoted year after year when the work has not even been begun. This practice has been the source of some criticism in Parliament at various times. Appropriations for projects, it is asserted, when thus revoted by Parliament may be available for utilization by the Government in the event of a general election, and sometimes, too, such appropriations are merely political window dressing to appease the people of a given province, although there may be no intention of actually going ahead with the projects during the fiscal year. The obvious remedy is to vote only the amount, in the first place, which can be expended during the fiscal year for a given improvement; and this is now becoming more and more the established practice of Parliament.

The Fiscal Year

It is interesting in this connection to note the changes which have been made in the fiscal year of the Dominion.[14] Prior to federation, the

[14] The Dominion uses the term "fiscal year," as in the United States, while Great Britain sticks to "financial year."

Province of Canada had a fiscal year which coincided with the calendar year; but in 1864, it was changed to begin on July 1. After the Dominion was established, a law was passed in 1868 directing that the period between July 1 and June 30 should constitute the fiscal year. About a decade later agitation was started to have the fiscal year begin with an earlier month. Since Parliament usually met in the winter or early spring, it was finally decided in 1906 to change the fiscal year to begin on April 1, thus coinciding with the British financial year. And so it has remained to the present time.[15] This seems to be a convenient period; for when the estimates are voted promptly by Parliament, work on outdoor projects can start as soon as weather conditions will permit. In a country like Canada with a long winter season, failure to begin such projects before midsummer often leads to costly delays.

General Accounting and Reporting

The responsibility for the Dominion's general accounting and reporting rests mainly upon the Deputy Minister of Finance. Section 6 of the Department of Finance and Treasury Board Act requires this officer, under the direction of the Minister of Finance, to "keep the public accounts of Canada." Subsequent sections of this Act (secs. 12 and 13) provide that departmental and revenue accounts are to be designed under the supervision of the Treasury Board. Part IV, sections 37 and 38, of the Consolidated Revenue and Audit Act of 1931 reiterates the requirement that the general accounts are to be kept in the office of the Minister of Finance, and that the annual statement or report, called the "Public Accounts," is to be prepared by the Deputy Minister of Finance. Hence there can be no question about the legal basis of responsibility for the general accounting system of the Dominion government.

The general accounting work is conducted largely by the Accounts Branch of the Department of Finance under the immediate supervision of the Chief Dominion Bookkeeper. The appropriation accounts, however, are maintained in the office of the Comptroller of the Treasury. Accounting statements and reports are usually made to the Deputy Minister and transmitted by him to the Minister of Finance or to the Treasury Board.

The nature of the general accounts is broadly defined by section 37 of the Consolidated Revenue and Audit Act of 1931. These accounts must show, among other things, the current state of the Consolidated Revenue Fund, the revenues and expenditures of the current fiscal year, the commitments for the current fiscal year chargeable against each parliamentary appropriation or grant, and the fixed or established charges to be

[15] Section 2, Consolidated Revenue and Audit Act, as revised in 1931.

expended from the Consolidated Fund upon the authority of any acts of Parliament. The general accounts are operated on a cash basis, that is, only cash collected and actual payments made during the fiscal period are recorded in the receipts and expenditures for the year. An exception to this rule is the interest on the public debt; it is accrued and charged to expenditures as it matures.[16] The interest on trust and special deposits, however, is accrued and charged in the accounts at the end of each fiscal year. There is a leeway of thirty days beyond the end of the fiscal year in which to bring to account any expenses actually incurred before March 31. This additional period of a month serves to bring into the year's transactions the items of expenditures which in private business concerns would be carried to accounts payable. This leeway, however, does not apply to the revenue accounts which are generally closed three days after March 31. That lapse of time is allowed to permit moneys in transit from distant parts of the Dominion to reach Ottawa. Successive Ministers of Finance have always taken the view that it is imprudent to allow any latitude in this accounting for revenues, since it would then be possible to juggle the accounts and thus show a surplus where a deficit should have been recorded.

As soon as revenues and other receipts are deposited in the Consolidated Fund, the returns are put on the general books of the Dominion.[17] Here they are classified by sources and allocated to four general headings: ordinary receipts, special receipts, capital receipts, and trust and special deposits. Ordinary receipts include taxes, charges for services, interest from investments, and miscellaneous collections; in general, all items of annually recurring income. Special receipts are limited, under the classification of accounts adopted in 1936, to refunds and credits under various relief measures and special projects like the wheat pool and stabilization operations. Capital receipts represent any refunds or repayments of expenditures previously charged to capital account. Trust and special deposits include any receipts held in trust or for special purposes. They are carried on the books as liabilities of the government.

The daily expenditure returns are entered on the general books by departments, and are grouped under certain main headings. According to the classification of accounts adopted in 1936, these headings are ordinary expenditures; special expenditures (chiefly for unemployment and agricultural relief); operating deficits of, and nonactive advances to,

[16] The discount and commission on loans issued are likewise amortized over the periods of the loans. See *General Office Guide*, Office of the Auditor General of Canada (1944), p. 112, sec. 223.

[17] Revenues in arrears are not included.

government owned enterprises; capital expenditures; and write-down of assets.[18] Ordinary expenditures are the recurring expenses of the government, including fixed charges for interest, pensions, and the like. As a class, they represent a sort of yardstick to measure the increasing cost of the government. Special expenditures, as already indicated, are mainly those for unemployment and relief which are not expected to continue indefinitely. Operating deficits of, and nonactive advances to, government owned enterprises include the net income deficit of the Canadian National Railways, the National Harbours Board, and similar enterprises operated as separate corporations. Nonactive advances to these corporations do not earn interest and are treated in the general accounts as expenditures, a category that was inaugurated in 1936. Capital expenditures are for public works and similar undertakings which, according to a parliamentary rule laid down more than sixty years ago, are considered of national importance and are therefore capitalized.[19] While this rule has not been strictly adhered to, it has been generally followed to the extent that expenditures for harbors at some of the principal cities, public buildings at Ottawa, and canals and railways are carried in the accounts as capital outlays. On the other hand, expenditures for the construction of postoffices, custom houses, public buildings, and similar works throughout the Dominion are generally charged to current income. The write-down of assets constitutes a reduction in the nonactive assets, and usually appears in the form of a credit to the nonactive account, leaving the net debt unchanged. Losses on loans and subscriptions to government agencies and corporations come under this heading.

[18] During World War II, there was added to these main headings an additional one called "war expenditures," which became a major category along with "non-war expenditures," the latter comprehending all of the other headings. The dividing line between the two categories was to a considerable degree arbitrary. The compensation paid to the provinces for vacating the personal income and the corporation tax fields, and for the loss of gasoline tax revenue, while directly attributable to the war, were not classified as war expenditures. Likewise, a large part (or all) of the increase in interest on the public debt and in the cost of revenue collections growing out of the war were not put under war expenditures. It was argued that while war expenditures had increased some departmental expenditures, they had decreased others. For example, they had contributed materially to the improvement of the finances of Canadian National Railways, thus converting what used to be an operating deficit into a surplus.

[19] "So far as Dominion Government accounts are concerned, the only direction on record is that of April 28, 1882, when the House of Commons enunciated the principle that only expenditures on works considered to be of national importance should be capitalized. Even that broad rule has not been adhered to, and I feel that a good case might be made against capitalizing any item, except where provision is made that revenues accruing from it shall go to recover the initial outlay." Watson Sellar, "Parliamentary Grants," No. 1, November 7, 1935, p. 6, *Treasury Office Lectures, 1935–36 Season*. See discussion of capital expenditures in Chapter III, above.

The Dominion Balance Sheet

It is not easy to explain how the above transactions relating to receipts and expenditures are incorporated into the Dominion balance sheet. In assembling the data for the balance sheet no attempt is made to segregate the assets and liabilities under the generally accepted classifications of current, capital, and so on. It would be very difficult, if not impossible, to establish an accurate dividing line between items which might be regarded as current and those belonging to other classes of assets and liabilities. Nevertheless, the items, as they relate to assets, are (according to the latest revision made in 1944) divided into two main groups for balance sheet purposes. The first group includes those assets which may be classed as recoverable or income producing, the total of which is deducted from the gross liabilities of the Dominion in arriving at a figure called the "net debt." Such assets represent cash balances, working capital advances, loans and advances which are considered recoverable, investments, and some miscellaneous items. These are commonly referred to as "active assets." The second group, described as "nonactive assets," includes all outlays on government works which were classified as capital at the time the expenditure was made, and also loans and advances not considered as being either recoverable or income producing. One of the main items in this group is the amount loaned to the Canadian National Railways to pay income deficits and necessary capital requirements.[20] The amounts listed under nonactive assets, together with the debit balance in the Consolidated Deficit Account (formerly designated as the Consolidated Fund),[21] produce the figure referred to above as net debt, or, in other words, the net debit balance in the accounts as a result of these operations.

Perhaps it should be explained that the nonactive assets arise out of the accounting practice outlined in the 1920 budget speech. It was decided then that all assets which were not revenue producing or of a highly liquid character would be treated as "nonactive"—that is, as if government outlay on them was very little different from current unrecoverable expenditure. But the question of whether such assets were properly classified or not was found to depend upon experience extend-

[20] Before the Canadian National Railways Capital Revision Act of 1937 was applied, this amount totaled approximately $650,000,000. Under this Act, the amount was reduced to about $250,000,000, nearly $400,000,000 having been written off.

[21] This title was changed in the Public Accounts for 1944 to avoid confusion with the very different Consolidated Revenue Fund. The Consolidated Deficit Account is nothing more than the excess of expenditures over revenues on current account, accumulated since the time of federation. This account stood at $11,400,000,000 in round figures on March 31, 1947.

ing over many years. Some of these assets proved to be recoverable or yielded a return, while others did not. Furthermore, the items classed as capital were not always "capital" in the sense of giving service over a number of years. But they were items paid for out of appropriations classed as "capital expenditure" by the expending departments in submitting their annual estimates to Parliament; and departmental practices have always varied widely as to the items thus classed and still continue to do so.

The changes in the Dominion balance sheet in any year are of two types: (1) those in the net debt, which result from the effect of the annual revenue and expenditure in producing a deficit or a surplus; and (2) those of a more or less "autonomous" character in assets and liabilities. The latter type arises when the government is frequently called upon to make loans or investments of various kinds in carrying out its policies, or otherwise to acquire active assets, and when from time to time it realizes on assets previously acquired. These financial operations of the government are quite outside the field of annual expenditures and revenues in the strict accounting sense; however, they must be authorized by Parliament in exactly the same way as expenditures, to which they are normally related. At the same time, the changes in liabilities, while they may be affected by governmental action, are in most cases quite unrelated to the annual revenues and expenditures.

The "Public Accounts" of Canada

The general accounts of the Dominion are summarized in an annual statement or report, called the "Public Accounts," prepared largely by the Deputy Minister of Finance and his accounting staff. This report is compiled, according to law (sec. 38, Consolidated Revenue and Audit Act), "as soon as possible after the termination of each fiscal year," and is submitted by the Deputy Minister to the Minister of Finance. The Minister is then required to lay the report before the House of Commons by October 31, if Parliament is sitting, or within one week after Parliament is next assembled. As a matter of practice, the report is usually ready by the end of the calendar year and is presented to Parliament shortly after it meets the latter part of January.[22]

There is an interesting history behind the present form of the Public Accounts. For the first few years after federation, this document was prepared by a Board of Audit. This board was the successor of a similar

[22] If Parliament sits in November, as in 1940 and 1941, an effort is made to have the Public Accounts tabled within the time required by statute. This, however, was not accomplished in 1945, when Parliament sat during November and the early part of December, because of the difficulties of getting the Public Accounts printed.

board which had been set up in the Province of Canada during the middle fifties as a result of the struggle of the legislature to secure more effective control of the expenditures made by the executive arm of the government. When the Dominion Department of Finance was formally established in 1869, the Board of Audit performed its duties under the supervision of the Minister of Finance. At the same time the Treasury Board was created. The following year, the duties of the Auditor were combined with those of the Deputy Minister of Finance. In 1878, when Parliament passed the first Consolidated Revenue and Audit Act, the Board of Audit was abolished and the Auditor's office was separated from the Deputy Minister of Finance. The Auditor became in effect an officer of Parliament, charged with "the more complete examination of the public accounts of the Dominion, and the reporting thereon to the House of Commons." Responsibility was placed on the Deputy Minister of Finance not only for keeping the general accounts of the Dominion but also for preparing the Public Accounts to be tabled in Parliament by the Minister of Finance. Provisions with respect to the contents of the Public Accounts were essentially the same as those required by the present Consolidated Revenue and Audit Act. Under the existing act, the report must show the state of the public debt, the condition of the Consolidated Revenue Fund and the various trust and special funds under the management of the government, and such other accounts and matters as are required to show what the liabilities and assets of the Dominion are at the date of the report.

Up to and including the Public Accounts for the fiscal year 1884–85, the report had included a considerable amount of detail concerning expenditures. But thereafter the treatment of expenditures was more and more reduced to a summary presentation, since the details of expenditures were then being reported to Parliament by the Auditor General. This arrangement continued, as a matter of fact, until 1942. Thus for many years there were two official reports on the accounts of the Dominion, differing in treatment and emphasis but overlapping to a considerable degree—one prepared by the Deputy Minister of Finance and the other by the Auditor General. This arrangement not only resulted in increased costs for preparation and printing but also in confusion and inconvenience to the members of Parliament and others who had occasion to study the finances of the Dominion. At the same time, some preliminary changes in 1940 which somewhat abbreviated the details formerly carried in the Auditor General's report led to a demand on the part of some members of Parliament for more complete information, particularly in regard to expenditures, than was being shown in either of the two official reports.

Early in 1942 the Auditor General took the initiative in requesting that an informal committee should be set up to survey the feasibility of a single financial report and to make recommendation to the Minister of Finance. Such a committee was constituted, consisting of the Deputy Minister of Finance, the Comptroller of the Treasury, and the Auditor General. A memorandum was prepared by the committee, supported by materials on the reporting practices of other countries, which came to the conclusion that the report on Public Accounts and the Auditor General's report should be combined under a single cover to be called "Public Accounts." On July 31, 1942, the Minister of Finance announced in the House of Commons that the Government was adopting the committee's recommendation.

The Public Accounts for the fiscal year ended March 31, 1943, was the first report to be set up according to the new form. It was divided into four sections, as follows:

Introduction. A review by the Deputy Minister of Finance, summarizing the financial transactions and outlining the debt position of the Dominion for the fiscal year under review, with certain comparative analyses.

Part I. The balance sheet of the Dominion with supporting schedules prepared by the Deputy Minister of Finance and certified by the Auditor General, followed by a summary statement of revenues and expenditures and a condensed cash statement for the year; comparative tables of revenues, expenditures, and indebtedness since federation; and various appendices consisting of miscellaneous statements necessary to report on transactions not fully treated elsewhere.

Part II. A report by the Comptroller of the Treasury, prefaced by summarized statements of revenues, appropriations, and expenditures which are certified by the Auditor General, and followed by departmental details of the transactions by official revenue accounts, appropriations, and war allotments as well as information relative to the trust and special accounts.

Part III. The Auditor General's report to the House of Commons, containing his comments upon the information disclosed in the preceding sections and such other matters as he is required, or may wish, to report upon.

It is pointed out in this first consolidated report on Public Accounts that the financial operations of the Dominion government are both complex and involved. "The government today," says the report, "is by far the largest and most complicated business in Canada: it is by far the largest employer of labour; through its various agencies it carries on an exceedingly diversified range of activities, including the operation of a transcontinental railroad and a whole series of industrial and business enterprises; its total expenditures are about half the aggregate national income and consequently its financial operations are of a most difficult, widely ramifying and highly involved character." Nevertheless, the hope is expressed that through the medium of this report citizens, as well as

members of Parliament, may be able at least to follow the broad outlines of Dominion finances.

Although rather voluminous, there can be no doubt that the single, consolidated report on Public Accounts is a great improvement over the reports previously issued. The financial data are better organized and the financial statements are clearer than ever before. The introductory section of the report presents a running survey of Dominion finances, supported by numerous comparative tables. This section is most illuminating. And the report is not to become static; improvements continue to be made each year in the fiscal analyses. For example, a refined and somewhat reconstructed balance sheet for the Dominion government was introduced in the Public Accounts for the fiscal year ended March 31, 1944.

Chapter VI

THE AUDIT OF DOMINION ACCOUNTS

THE RESPONSIBILITY of the Dominion Executive in collecting and spending the public moneys and in keeping the accounts of the government, according to parliamentary usage, has been discussed in the preceding chapter. The next step in the fiscal process is the enforcement of accountability on the Executive for its actions in interpreting and carrying out the financial policies, as set forth in the budget and supporting legislation. This step is accomplished, according to British practice, through an audit of the public accounts and records by an agent of Parliament, the Auditor General. It is the business of the Auditor General to examine the financial operations of the Executive and its various departments and to report his findings thereon to the House of Commons. It is the business of Commons, in this instance, to review these findings through its Committee on Public Accounts and to make such criticisms, recommendations, and statutory changes as the situation may demand. As we shall see in the course of this chapter, the duties of the Auditor General of Canada in this regard are effectively carried out; but the duties of Commons are rather neglected.

The Auditor General of Canada, before the revision of the Consolidated Revenue and Audit Act in 1931, exercised powers belonging to both a comptroller and an auditor. He authorized expenditures to be made from appropriations; then later he conducted a final audit of the transactions resulting therefrom. He was, in effect, an administrative officer part of the time and a legislative officer the remainder of the time—a wholly inconsistent position, to say the least. As Prime Minister Bennett said in the House of Commons debates [1] when the revision of the Consolidated Revenue and Audit Act was under consideration: "The Auditor General, in practice, must commit himself to the propriety of

[1] R. B. Bennett, in *House of Commons Debates,* 1931, p. 2937.

the expenditures, by applying on behalf of a disbursing department, to the Minister of Finance, for a letter of credit. But as he then loses control over the letter of credit thus established, if payments are improperly made by the departments, his redress is to make an adverse report to the House of Commons. Moreover, as the act now stands, the Auditor General may to all intents and purposes be excluded from any intimate knowledge of the activities of the Department of Finance." The revised Act of 1931 took away from the Auditor General his authority over the administration of revenues and expenditures and at the same time considerably broadened his auditing powers, giving him the right to investigate the financial activities and to check the accounts of practically all departments and agencies of the government. These changes, unquestionably quite desirable, brought his powers more closely in line with those exercised by the British parliamentary auditing officer.

The essential powers and duties of the Auditor General are contained in the Consolidated Revenue and Audit Act of 1931, principally in Part V of this act. The early sections (39 to 42) of this part establish the Office of Auditor General and provide it with a staff. The Auditor General, as pointed out in Chapter II, is appointed by the Governor General and holds office during good behavior. He must retire, however, at the age of 70 years. He can be removed from office only by the Governor General on address of the Senate and the House of Commons. His salary is fixed at $15,000 a year; he is subject to the provisions of the Civil Service Superannuation Act, except as regards his tenure of office. His staff, consisting of about 135 regular employees, is recruited under civil service. He has authority to suspend any of the persons employed in his office.

Audit of Revenues and Receipts

The Auditor General is required under section 45 (1) of the revised Consolidated Revenue and Audit Act to "satisfy himself that the revenues are being fully accounted for," and to examine, at his discretion, the accounts of all persons employed in collecting and managing the revenues. These provisions were written into the Act for the first time in 1931, and were obviously intended to extend the Auditor General's authority to the examination and checking of all revenues.

In the exercise of this authority, the Auditor General first undertook to check on taxes in arrears. The various assessing and collecting officers seem to have responded promptly, except the Commissioner of Income Tax. The latter did not provide the information requested from his assessment records in the Income Tax Division, and a long argument ensued, lasting for about four years. Voluminous correspondence and

legal opinions resulted. Finally, late in 1937, the Department of Justice ruled that "the Auditor General has the same powers of audit of income taxes as he has with regard to the revenue of any other department, except in so far as the documents mentioned in section 81 of the Income War Tax Act are concerned. He is not permitted to see these documents for two reasons: *first,* because he is precluded by the provisions of said section 81, and *second,* because he has no power to review the findings of the Minister." [2]

The Auditor General apparently accepted this as a final ruling on the matter. In his *Report* for 1937–38 (Vol. I, p. vi), he remarked: "Consequently, I cannot satisfy myself regarding the accuracy of assessments of income tax, nor ascertain on behalf of Parliament that the provisions set forth in the Income War Tax Act, with regard to these assessments, have been properly applied by the Income Tax Division."

With the retirement of Georges Gonthier as Auditor General in 1939 and the appointment of Watson Sellar in 1940, an understanding was evidently arrived at with respect to the audit of the income tax. This audit is now being more extensively gone into, though on a test check basis.[3] In his report (p. 13) for the fiscal year ended March 31, 1944, Mr. Sellar remarked that "audit tests and surveys" were made of the methods of collecting and accounting for income tax revenues at a number of the district offices, and that recommendations for further safeguarding these revenues had been made to the Department of National Revenue. In his previous report (p. 16), Mr. Sellar said:

Because of amendments to the Income War Tax Act whereby payments of income tax are made by deductions from salary and wage payments, etc., a large number of persons and corporations are now technically collectors of

[2] Letter by the Deputy Minister of Justice of the Minister of Finance, November 26, 1937.

[3] See Auditor General's *Report,* 1944–45, section 73, p. 21. Mr. Sellar called attention to his inability to inspect the assessment records of the income tax in his report of 1945–46, pp. 10–11. He said that without access to the taxpayers' files, it was impossible for his office to satisfy itself on various points with respect to the collection of revenues, as follows: " (a) the propriety of amounts, purporting to represent assessment decreases, entered to the credit of the taxpayers' ledger accounts; (b) the correctness of refund amounts paid to taxpayers in those cases where tax amounts collected by employers, from employees' salaries and wages, exceed the amount of the tax assessments; (c) the correctness of penalty amounts imposed for the late filing of income returns, in accordance with the provisions of the Income War Tax and Excess Profits Tax Acts; (d) the extent to which effect is given to remissions authorized by order in council; (e) the extent to which recoveries are effected from trustees in bankruptcy when the Division is a creditor in bankruptcy proceedings." Then he added: "Within the limitations above noted, audit tests were made of the procedures (other than those related to assessing) followed in district offices and at head office. It was observed that, although a procedure is provided for following up overdue accounts, follow-up practices were in arrears at most district offices visited, and to a marked degree in several."

revenue. The changes in the Act have materially expanded the activities of the Income Tax Division. Due to the scarcity of trained audit personnel, my examination of collectors' accounts and of departmental procedures and records was not as comprehensive as would otherwise have been the case. For that reason, it cannot be certified that all moneys due and payable were fully and promptly brought to account; but examinations made satisfactorily establish that the revenues, as certified by the Department, have been fully accounted for.

The general methods employed in auditing all revenues is outlined by Mr. Sellar in his *General Office Guide* published in 1944 (p. 43, sec. 65), as follows:

> Audit officers should regard the account as an official one as soon as a tax assessment is made, a licence is issued, a fee becomes due and payable, or a service is rendered and the beneficiary becomes liable for the cost thereof. They should regard audit practices with respect to accounts receivable of a commercial concern as applicable. That is to say, the state of the accounts, billings and follow-up practices, and the realizable value, all come within the scope of the audit.

Mr. Sellar then goes on to say:

> The Crown enjoys certain priorities and statutes of limitations do not run against it. Therefore, a step should be to discuss accounts receivable with departmental officers and their plans and policies with respect thereto. It is a commercial practice to verify balances owing by direct confirmations from customers. This may not be applied invariably—especially with respect to tax levies or other obligatory payments for which no service is rendered. But when a sum is due for services rendered, there can be no objection to communications being sent asking debtors to confirm amounts. Generally this should be done only after the department concerned agrees. If a department objects, the matter will be noted to the Auditor General for instructions.

Mr. Sellar took occasion to point out in his first report (p. 561) as Auditor General for the fiscal year ended March 31, 1940, that there was "a mass of uncollectible accounts in the departmental records" which should be cleared up. He stated that no action had been taken in this direction since 1909, when the Public Accounts Committee of the House of Commons last reviewed the departmental accounts receivable and gave instructions with respect to the disposition of various items. He noted a few extreme cases in which accounts receivable antedated 1900, certain of which amounted to more than one hundred thousand dollars, in one case being owed to the government by a defunct corporation. He said that the government's business is now so extensive that no committee of Commons would "have either the inclination or the time to investigate in detail the mass of individual accounts in order to decide whether or not they were collectible." Yet he went on to say that "the fact cannot be ignored that, unless periodic examinations are made of departmental transactions, the maximum effort may not be put forth

to collect promptly and that so long as old and uncollectible accounts form part of departmental records the risk is present that collecting officers may limit their endeavours to periodic formal demands for payment." He suggested a reviewing authority of senior officials clothed with power to write off certain classes of uncollectible accounts, subject to the approval of the Governor in Council, with a report to Parliament on the action taken. Such classes of accounts, he thought, should be limited to those which arise in the ordinary course of administration and which are not carried into the Dominion's balance sheet.

Audit of Expenditures and Accounts

Certain broad powers are vested in the Auditor General with reference to the audit of expenditures and the accounts pertaining thereto. Under section 44 of the Consolidated Revenue and Audit Act, he is required to "examine, periodically, the accounts of all branches of the public service," and to "take such further steps as he may deem necessary to satisfy himself that such accounts are faithfully and properly kept and that the moneys expended have been applied to the purposes for which the grant was intended to provide." In order to make this examination, he is permitted to "proceed *pari passu* with the expenditures of the several departments," and to have free access, at all convenient times, to the accounts and other related documents. He may require each department to furnish him at regular intervals with all statements, reports, and documents necessary for his audit. He may station his auditors in any department or branch of the public service, if he can thereby facilitate his auditing work.

Besides examining the accounts of the several departments, section 46 of the Act requires the Auditor General to "examine and audit the accounts of Canada for each fiscal year." This provision relates, of course, to the general accounts kept by the Department of Finance. The statements concerning these accounts must be prepared in such form as the Auditor General may desire, and by such persons as the Minister of Finance may designate. These statements must include the accounts of all receipts forming the Consolidated Revenue Fund; the accounts of all expenditures made from this fund; the accounts current with the several banks and fiscal agents of Canada; the accounts relating to the issue or redemption of loans, and to the sinking funds; the accounts with other governments; the accounts with the several Indian tribes, under what is known as the Indian Fund; the accounts held in trust for others; and any other accounts which the Treasury Board may direct the Auditor General to examine and audit. Each of these accounts must be examined

under the direction of the Auditor General and certified to the House of Commons as correct.

A further responsibility of a similar nature is placed upon the Auditor General by section 47. He is required to examine, from time to time, the accounts and records with respect to the gold held as security for the redemption of Dominion and provincial notes; redeemed or cancelled securities, coupons, Dominion and provincial notes, and any other obligation representing the debt of Canada; unissued reserves of Dominion notes and securities, specie, stamps, and such other reserves of like character as may be in the custody of any public officer; equipment, supplies, provisions, or stores which are property of the government; [4] and any similar accounts which the Treasury Board may want examined and audited. The Auditor General may make such tests, in these cases, as he deems necessary to satisfy himself that the accounts are in order. When the examination of each account has been completed, the Auditor General is required to give the Treasury Board a certificate to that effect, thus discharging his responsibility. Under section 19, the Auditor General and the Deputy Minister of Finance are required to examine and cancel Dominion or provincial notes and securities, representing the debt of Canada, which have been redeemed, or representing the unissued reserves of such securities which for any reason must be cancelled; and then, subject to the regulations of the Governor in Council and on recommendation of the Treasury Board, destroy them.

In addition to the regular examination of expenditures and accounts under the provisions of the Consolidated Revenue and Audit Act, as noted above, the Auditor General is required by several statutes to audit the books and records of various commissions, associations, and enterprises, operating wholly or in part on moneys from the Dominion government. Among the enterprises may be mentioned the National Harbours Board, the Canadian Broadcasting Corporation, and numerous wartime corporations.

Preaudit of Expenditure Accounts

The examination and audit of the expenditure accounts and documents, described in the preceding paragraphs, are entirely of a postaudit character, and as such properly belong to the functions of a parliamentary auditor. However, in drafting the 1931 revision of the Consolidated Revenue and Audit Act a new section was inserted which permitted the

[4] Such an audit is somewhat hampered by the fact that no comprehensive statute currently regulates the management of public property in the form of equipment, supplies, materials, and stores.

continuation of a limited preaudit practice that had been more or less followed for a number of years. This practice had related mainly to salary lists and had dated back as far as 1895, when certain departmental employees at Ottawa were required to be paid "on pay lists certified by the Auditor General before payment." [5] But during the fiscal year 1940–41 the preauditing of pay lists was discontinued by the Auditor General, since war conditions had made it inoperative, and the function was turned over entirely to the Comptroller of the Treasury.[6]

Under section 48 of the 1931 revised Consolidated Revenue and Audit Act, the Auditor General may audit the accounts of any branch of the public service before payment, if so directed by the Governor in Council on the recommendation of the Treasury Board. When the Auditor General is thus directed to preaudit certain accounts or classes of accounts no payment of such accounts may be made until he has certified to them as correct or, upon raising an objection to any account, until such objection has been overruled by the Treasury Board. The preaudit, it will be seen, which may be made under the provisions of this section is optional with the government, depending as it does upon the recommendation of the Treasury Board. Furthermore, any objections registered by the Auditor General as a result of the preaudit may be overruled by the Treasury Board. The whole procedure is therefore virtually in the hands of the Treasury Board.

In practice the preaudit conducted by the Audit Office was not satisfactory, and has virtually disappeared since Mr. Sellar became Auditor General in 1940. It was the source of considerable vexation to the former Auditor General between 1932 and 1940. As early as 1932, the Auditor General objected to the payment of a bill for a subsidy, submitted to him for preaudit by the Department of Agriculture, mainly on the ground of insufficient parliamentary authority. This objection, although supported by an opinion of the Department of Justice, was overruled by the Treasury Board.[7] Then during 1934 and 1935 a prolonged argument over the preaudit of pay lists arose between the Auditor General and the Comptroller of the Treasury. Finally, on April 5, 1935, the Comptroller of the Treasury informed the Auditor General that he did not accept the latter's rulings and added significantly: "The independence of the Auditor General is an attribute towards efficiency and I sometimes wonder if the practice of preaudits of pay rolls and certain other accounts

[5] Watson Sellar, *Manual of Accounting Instructions for the Offices of the Comptroller of the Treasury*, pp. 101–101A.

[6] Auditor General's *Report*, 1940–41, pp. 539–40.

[7] *Ibid.*, 1931–32, Vol. I, pp. 261–64.

does not tend to undermine it without providing compensating advantages." [8]

From the standpoint of financial administration, the occasional preaudits which the Auditor General was asked to do amounted to very little. When the Auditor General's findings reached beyond purely routine bounds and became important enough for the departments or the Comptroller of the Treasury to take exception to them, they were then put before the Treasury Board for its decision. As a rule, this board upheld the administrative officers, sometimes in the face of an opinion from the Executive's legal department favoring the findings of the Auditor General. Another reason for the virtual discontinuance of the preaudit after 1940 was that it encouraged laxity on the part of the Treasury and the administrative departments concerned, and tied the hands of the Audit Office if later on it discovered something in connection with a payment which was open to censure.

Today, the actual status of the Auditor General is that of an independent, postauditing officer of the Dominion Parliament, without responsibility for making any administrative decisions. According to British precedent, this is his correct sphere. He is thus enabled to make continuous and critical examinations of the accounts and accounting procedures of the government, exposing any flaws and weaknesses for correction. And this function of postaudit is not so extensive that it cannot be performed by a relatively small staff of trained and experienced auditors.

The Treasury Board's Authority on Appeals

Three sections of the Consolidated Revenue and Audit Act of 1931 vest the Treasury Board with broad powers in settling appeals from the decisions of the Comptroller of the Treasury or the Auditor General. Section 35 permits the Treasury Board to overrule the Comptroller of the Treasury whenever he declines to cause an issue of public moneys out of the Consolidated Revenue Fund. It is merely necessary for the departments or officers concerned to report the case to the Treasury Board, which "shall be the judge of the sufficiency of the objections, and may sustain them, or order payment to be made." The Comptroller of the Treasury is, of course, permitted to file a report with the Treasury Board presenting his side of the case. The same procedure applies, according to this section, whenever the Auditor General objects to the issue of public moneys by the Comptroller of the Treasury.

Section 48 permits the Treasury Board to overrule the objections of

[8] *Ibid.*, 1934–35, Vol. I, p. 251. Other correspondence with the Comptroller of the Treasury is printed on pp. 211–16 and 246–51 of this volume.

the Auditor General to any account, pay roll, or bill which he may be asked to preaudit. Protests may be registered with the board in this case either by the administrative department or officer concerned or by the Comptroller of the Treasury. The procedure, when operative, is practically the same as under section 35.

Section 51 states that whenever any public officer is not satisfied with a disallowance or charge in his accounts made by the Auditor General, or whenever any objection is raised by the latter to the introduction of an item into the accounts, this officer may appeal to the Treasury Board. After such investigation and examination as the board may consider necessary, it may order the appellant relieved in whole or in part of the disallowance or charge in question, "as appears to it to be just and reasonable," and the Auditor General must govern himself accordingly. It will be observed that the provisions of this section relate entirely to the postaudit findings made by the Auditor General.

Some instances have been cited in the preceding sections of this chapter which give an idea of the rulings of the Treasury Board on various appeals. At times the board has given great weight to the opinions of the Department of Justice, letting them practically decide the issues, as in the case of the audit of income taxes; then again the board has practically disregarded these opinions in making its decisions. During the fiscal year 1934–35, for example, the Department of Justice agreed with the Auditor General's findings in certain cases involving parliamentary authority for expenditure, but the Treasury Board ruled against both. The board contended that its rulings were "in the interest of economy and facility of administration," and thus, according to the Auditor General, justified the use of "surplus moneys in certain votes to pay excess expenditures in others." [9] The board has naturally leaned in its rulings toward facilitating the work of the administration, while at the same time it has been influenced by motives of economy. The board has not hesitated to act, even on questions involving parliamentary authority, because there was very little chance that its actions would be questioned or criticized in the House of Commons, owing to the moribund condition of the Committee on Public Accounts.

Report on Audit to the House of Commons

The Auditor General is required to make two types of reports: one to the Executive and the other to the House of Commons. The reports to the Executive are more or less optional. Section 43 of the Consolidated Revenue and Audit Act states that in any case where the Auditor General deems it necessary to report information to the Governor in Council,

[9] *Ibid.*, 1934–35, Vol. I, p. liv.

such report must be made through the Minister of Finance. Section 52 (2) is somewhat more specific as to the nature of the report: whenever it appears to the Auditor General that any balance of public money has been improperly and unnecessarily retained by any person, he must report the circumstances to the Minister of Finance. The Minister must then take measures to recover the money. Under other provisions of law, the Auditor General often reports his findings from special audits and the like to the departments or agencies concerned.

But more important than these reports, from the standpoint of general information, is the annual report which the Auditor General must prepare for the House of Commons. Section 49 provides that the result of his examination and audit of the Dominion accounts must be presented in such manner as to exhibit the true state of each account at the close of the last fiscal year. Section 50 (2) specifies certain facts which must be shown in the annual report, as follows: every case where a grant has been exceeded; or where moneys received from sources other than the grants for the year to which the accounts relate have not been applied or accounted for according to the direction of Parliament; or where a sum charged against a grant is not supported by proof of payment; or where a payment so charged did not occur within the period of the account or was, for any other reason, not properly chargeable against the grant, or was in any way irregular; or where a special warrant (a Governor General's warrant) authorized the payment of any money; or where an objection of the Auditor General was overruled by the Governor in Council or the Treasury Board; or where a refund or remission of any tax, duty, or toll was made on the authority of any act of Parliament; or to any other case which the Auditor General thinks should be brought to the notice of Parliament. The annual report (sec. 50 (1)) must be laid before the House of Commons by the Minister of Finance on or before October 31, if Parliament is then sitting or, if not sitting, within one week after it is next assembled. If the Minister does not present the report at the prescribed time, then the Auditor General may submit it directly to the House of Commons.

As a matter of practice, the annual report of the Auditor General is usually prepared during the summer and autumn for the fiscal year ended on March 31, and is ready for submission to Parliament by November or December or, at the latest, when that body meets in regular session the latter part of January of the following year.[10] Hence the report usually reaches Parliament some eight to ten months after the close of

[10] Since 1943, when the Auditor General's report was made a part of the Public Accounts report, it must await the preparation of the other sections of the report by the Deputy Minister of Finance and the Comptroller of the Treasury.

the fiscal year to which it relates. What it contains is necessarily very largely a matter of history by this time, but oftentimes historical information can be very valuable as an aid to controlling future finances.

Form of the Auditor General's Report

Prior to the issuance of the Auditor General's report for the fiscal year ended March 31, 1940, the report was quite voluminous and was printed in both English and French in two parts. Volume I, consisting of about 400 pages, contained the Auditor General's comments on the audits made by his office during the year; summary statements of appropriations, expenditures, and revenues; certain miscellaneous statements; and correspondence with the Treasury Board and with the departments on disputed matters. Volume II, consisting of about 1,000 pages, gave the details of receipts and disbursements classified by departments and by objects of expenditure. This report, it has been said, provided "a mine of information for the member of Parliament and the average citizen who wishes to delve deeply into the mysteries of that bourne from which the taxpayer's dollar never returneth." While the former Auditor General, Mr. Gonthier, felt that the annual report was too voluminous, he thought its size was nevertheless justified.[11] "If the public accounts," he said, "were subject to review by a Committee of the House, as in England, the publication of the details, to such an extent as in the past, might not be necessary, as any additional information requested by the Committee could readily be furnished by me." [12]

In reporting for the first time, the present Auditor General, Mr. Sellar, reduced the size of his annual report for 1939–40 to a single

[11] Several years ago the Auditor General's annual report was very much larger than the one just described above. In 1923, for example, it ran to 3,372 pages, more than double the 1939 size, and cost correspondingly more to print. When Mr. Gonthier reduced the size of the report about 1930 by eliminating certain details, he relates that the change was not even noticed by the members of the House of Commons.

Beginning with the fiscal year 1923–24, the Auditor General's report started to comment on the accounts which appeared in the Dominion balance sheet. Subsequently, up to 1942, this report, like the Public Accounts, covered all the accounts in the books of the government.

The Auditor General's report began in 1879 as a report on the appropriation accounts only. It summarized these accounts in such form as the Auditor General thought necessary to explain his certificate, with brief statements as to the uses to which the parliamentary appropriations had been put and comments upon irregularities. Soon, however, an increasing amount of details was added. In the fiscal year 1885–86 the details were greatly expanded, while only a summary appeared in the Public Accounts. This practice, which was apparently arrived at by agreement between the Auditor General and the Deputy Minister of Finance, was continued up to 1942. At the same time, the Auditor General's report showed increasing evidence of concern with revenues as well as expenditures.

[12] Auditor General's *Report*, 1934–35, Vol. I. p. lv.

volume of 562 pages. Instead of combining the English and French versions, as had previously been the practice, he had the complete report published separately in the two languages. He changed the form of the report to conform with and support the estimates under the new arrangement by which they were being submitted to the House of Commons.[13] He maintained that this change was highly desirable, since it would readily permit the members of Parliament to compare the details of the estimates with the actual disbursements. The more consolidated form of report, it was argued, reduced the overhead costs of preparation and printing, and permitted more time to be devoted to the actual audit of accounts.

In its abbreviated form, the annual report of the Auditor General for 1939–40 necessarily omitted a great many details which had formerly been presented. One of the more obvious omissions was the curtailment of the listing by name of government employees to those receiving salaries of $2,400 or more. The name, civil service title, and salary of every government officer and employee had been printed in previous reports. It appears that this information on personnel had been referred to by the members of Parliament as much or more than all the other data carried in the annual report. The partial omission of it was a matter of some criticism in the debates of the House of Commons. Another omission was the correspondence of the Auditor General with the Treasury Board and with the departments on disputed matters. The observations, findings, and recommendations of the Auditor General on matters pertaining to both his general and special audits were placed at the end of the report instead of at the beginning, and no effort was made to summarize them so that "he who runs" might read them. Minor suggestions and recommendations were scattered all through the 500 or more pages of departmental revenues and expenditures without any attempt to list the more important at one point.

The Auditor General's reports for 1940–41 and 1941–42 appeared in practically the same form as the one for 1939–40. Early in 1942 (March 27), the Auditor General addressed a letter jointly to the Deputy Minister of Finance and the Comptroller of the Treasury in which he proposed a consolidation of the Public Accounts and his own report. In the course of this letter, he said: [14]

> . . . the House of Commons is accustomed to a detailing of expenditures in the Audit report, and a summary statement in the Public Accounts. For a considerable period after Confederation, the reverse was the rule, and I have never been able to appreciate why the change was made, because the Cabinet being

[13] For a description of the new arrangement of the estimates, see above, pp. 61–65.
[14] Auditor General's *Report*, 1941–42, p. 636.

answerable to the House for its financial transactions, it would appear that the accounting stewardship should be by the Government. The Auditor General having no power to disallow, the value of his report must rest, not in the listing of proper transactions, but in bringing questionable items to the notice of the House of Commons. This is particularly applicable now, when hundreds of millions are involved.

He went on to say that a staff saving could be made by centralizing the task of reporting in the Department of Finance, that this would relieve his office of keeping certain records, and that some parts of his staff could then be transferred to the Comptroller of the Treasury to assist him with the preaudit. Later, a joint memorandum was prepared by the three officers—the Deputy Minister of Finance, the Comptroller of the Treasury, and the Auditor General—acting as an informal committee, and submitted to the Minister of Finance. This memorandum recommended a consolidated report in such a convincing way that the Minister of Finance announced in the House of Commons on July 31, 1942, that the government was adopting the recommendation.[15]

In the Public Accounts report for 1942–43, the Auditor General's comments, criticisms, and recommendations became for the first time a concluding part of this report. These appeared as 78 pages of running text under the title of *Report of the Auditor General to the House of Commons with respect to accounts examined and audited in accordance with the provisions of the Consolidated Revenue and Audit Act, 1931, and other legislative enactments.* This report, as it appeared for 1942–43 and in subsequent Public Accounts, seems to be quite adequate from the standpoints of both contents and presentation in discharging the Auditor General's responsibility to the House of Commons. But it could probably be made more readable, since it is now painfully matter of fact.

Inasmuch as the chief function of the Auditor General is to inform the House of Commons through his postaudit of the financial transactions and accounts of the government, particularly concerning the extent to which the Executive has carried out parliamentary stipulations, it is disappointing that this body does not utilize the findings and reports of the Auditor General to better advantage. "As my audit is made on behalf of the House of Commons," wrote the former Auditor General, "I desire to again emphasize the fact that it would be of great assistance to this Office in the fulfillment of its duties and of benefit to the whole service if the House were to indicate its wishes by giving directions concerning the various matters brought to its attention in my annual reports."[16]

[15] See above, p. 132.

[16] Auditor General's *Report*, 1934–35, Vol. I, p. lvi.

An Unworkable Public Accounts Committee

It is now generally conceded that the Dominion Public Accounts Committee is far from being anything like the effective parliamentary instrument that its British prototype is. Judging from the comments of prominent members of the Dominion Parliament on both sides of the House during the past fifty years or more, the main reasons for the committee's ineffectiveness are its large size, its composition, its partisan attitude, and the infrequency of its meetings. As already pointed out near the end of Chapter II, the committee consists of fifty members at the present time, while it has had as many as eighty members. Consequently, it is a large, unwieldy group, almost impossible of assembly at one time. For this reason the quorum has been fixed at only fifteen. The committee is composed mainly of the majority party members of the House, the chairman included. Hence most of the members are supporters of the Government of the day; indeed, it is not uncommon for some of the ministers to be included.[17] The whole organization of the committee, from the chairman down, is designed to discourage criticism by the Opposition.[18]

It is not difficult to understand why the Dominion committee, organized as it is, should take a partisan attitude in making any investigation. It is only natural that friends of the Government should not want any unfavorable criticism or damaging evidence brought out before the committee. Whenever the committee meets, the Opposition members are therefore pretty well stymied. And in recent years the meetings of the committee have been few and far between; the last time the committee actually met for the purpose of examining certain accounts was in 1929.[19]

Owing to the way the Dominion Public Accounts Committee is now constituted and operated, it may be said that a thoroughgoing and impartial sifting of the facts in any case of improper governmental expenditure or accounting can hardly be made. The Government, therefore, runs practically no risk in having any doubtful or extravagant financial methods exposed by the committee. The effectiveness of the Auditor General's work is thereby greatly reduced, since he has no appeal from the decisions of the Executive made through the Treasury

[17] For example, the Public Accounts Committee, named on March 29, 1946, included two ministers—the Minister of Munitions and Supply (also Minister of Reconstruction) and the Minister of Public Works.

[18] See Alexander Brady's comments in *Canada after the War*, edited by Brady and Scott (1943), pp. 44–45.

[19] The Public Accounts Committee met again in 1939 when the so-called Bren machine gun contract was referred to it for investigation. See *House of Commons Debates*, March 16, 1939, pp. 2099 ff., particularly p. 2102.

Board. Although it is claimed that the Auditor General always has access to the House of Commons, there is nevertheless no formal channel through which he can take up his findings unless he uses the Public Accounts Committee.

Those who have sought an excuse for the inactivity, partisan attitude, and evident failure of the Dominion Public Accounts Committee point with apparent satisfaction to what they describe as the decline in importance of the British Public Accounts Committee. They even go so far as to state that this latter committee no longer plays an effective role in British financial control as exercised by Parliament. They assert that the blunt truth of the matter is that, "in the absence of scandals, legislative bodies are not interested in past expenditures." This situation, they claim, is due principally to two things. In the first place, the general standard of public administration is good and is constantly improving. In the second place, parliamentary bodies have enough to do to keep abreast with the needs of the moment. The trend toward social legislation, they point out, has placed such a burden on members of Parliament that they no longer have the inclination or the opportunity to examine constructively public expenditures. If this job is to be done at all, they say, it must be performed by some other tribunal than the parliamentary public accounts committee.

So far, however, such a tribunal has not been devised; at least, one which would work even as successfully as the British Public Accounts Committee. Moreover, Canada has never given the British type of committee a fair trial. To do so, the Dominion Public Accounts Committee should be reconstructed. How can this be done? The method is quite simple, and it is not a matter for experimentation—the British pattern and practice are well established. Unless action is taken in this direction, the reorganization of the Dominion's accounting and auditing, undertaken in 1931, will fall short in one prime essential of complete accomplishment.

Chapter VII

PREWAR REVENUES AND EXPENDITURES OF THE DOMINION

BETWEEN 1868 and 1914 the chief sources of Dominion revenue were customs and excise duties.[1] These duties, permanently taken over by the Dominion government at the time of federation, had previously yielded the greater part of the revenues of the separate provinces. In return for this concession by the provinces, the Dominion government agreed to assume the provincial debts and to provide out of its revenues definite cash subsidies for the support of the provincial governments.[2]

At the outbreak of World War I in 1914, the Dominion government got from customs and excise duties about 77 per cent of its total revenues. The remaining 23 per cent came mainly from postal receipts and certain departmental and miscellaneous fees. Inasmuch as both customs and excise duties are indirect taxes, the average Canadian was scarcely aware at that time of the pressure of taxation for Dominion purposes. But the situation changed very quickly with the entrance of Canada into the war. War taxation began in August, 1914, when increases were made in the customs and excise duties on various commodities, including coffee, sugar, spirituous liquors, and tobacco. In 1915 special additional duties of 5 per cent ad valorem were imposed on commodities imported under the British perferential tariff and 7½ per cent ad valorem on commodities imported under the intermediate and general tariffs, certain commodities being excepted. New internal taxes were also imposed on bank circulation, on the income of trust and loan companies, on insurance in

[1] Essentially the same thing was true in the United States between 1789 and 1914, for during this period the national government relied largely on customs as its main source of revenue.

[2] See below, Chapter X.

other than life and marine companies, on telegrams, cablegrams, railway tickets, pullman berths, checks, money orders, letters and post cards, and on various other commodities and services. In 1916 the business profits war tax (discontinued in 1921) was adopted. Then in 1917 the income tax was introduced, which gradually grew to be the Dominion's largest source of revenue by 1938–39. The sales tax, added in 1920, was for a time the largest source of revenue until it was surpassed by the income tax.[3]

Prewar Dominion Revenue Sources

The fiscal year ended March 31, 1939, produced the latest figures on Dominion revenue which were unaffected by Canada's entrance into World War II. These figures are therefore used as the basis of this discussion. The total tax revenues for this fiscal year amounted to $436 millions in an aggregate revenue of $502 millions. These figures were each within about $13 millions of those of the preceding fiscal year, which had set an all-time record for Dominion revenues.

The total tax revenues of the Dominion, which stood at $133 millions at the beginning of World War I, were increased by war tax measures until they gained $100 millions by 1919. During the next decade, these revenues gradually rose until they reached a yearly total of $395 millions in 1929. Then the depression drove the Dominion revenues down to $254 millions in 1932–33, when they began to rise again. They continued this rise until they passed the 1929 mark in 1937–38, and then had a slight recession in 1938–39, as noted above. The per capita figures for the total tax revenues ran like this: $17.45 at the start of World War I; $28.12 in 1919; $39.49 in 1929; $23.81 in 1933, and $40.03 in 1938.

Approximately 87 per cent of the Dominion's total revenues and receipts for 1938–39 were derived from four major tax sources, namely, income tax, customs duties, excise duties, and excise taxes. These four sources will be discussed at some length in the subsequent sections of this chapter. The miscellaneous taxes consisted of a tax on chartered banks and a tax on insurance companies. Chartered banks paid a 1 per cent tax on the average amount of notes in circulation.[4] Domestic in-

[3] Immediately after Canada entered the war in September, 1939, the Dominion income tax was increased, an excess profits tax was enacted, and the sales tax extended to cover domestic sales of electricity, gas, and a number of other items. Inheritance (succession) and gasoline taxes were added later, and the Dominion government by agreement with the provinces monopolized the income and corporation taxes for the duration of the war and one year thereafter. For a discussion of these war taxes, see Chapter IX.

[4] This tax has declined year after year because of the reduction in the outstanding amount of chartered bank notes. By 1944 it had become relatively unimportant.

surance companies, except life and marine, paid a 1 or 2 per cent tax on net premiums. The Dominion, prior to 1941, did not have an inheritance tax or a gasoline tax, but left these sources entirely to the provinces.

The largest source of the so-called "non-tax" revenues for 1938–39 was the receipts of the Post Office. These receipts had gradually increased from year to year until they exceeded $35 millions, not including about $7.5 millions which were retained as salaries and allowances by certain classes of postmasters. At the same time, the operating expenditures of the Post Office had stepped up until they were practically equivalent to the receipts. The second largest item of nontax revenues was the interest on government investments, amounting to $14 millions. Other receipts under nontax revenues consisted of fees, fines, licenses, receipts from public domain, public works, canals, and other sources. Fees, fines, and licenses produced about $3 millions, nearly a third of which came from licenses under the Canada Grain Act. The public domain of the Dominion brought in receipts from lands, parks, mines, fisheries, and so on, amounting to one and a third millions of dollars.[5] In the aggregate, the nontax revenues constituted a little more than 12 per cent of the Dominion's total revenues and receipts for 1938–39.

The foregoing Dominion revenues and receipts did not, however, include approximately $200 millions of earnings from several government owned enterprises. The earnings of each enterprise were used to finance it, and if they did not meet its entire cost the deficit was made up from the Consolidated Revenue Fund. The Canadian National Railways, by far the largest government owned enterprise, had operating revenues for the calendar year 1938 amounting to $182,242,000, which was a decrease of $16,155,000, or 8.1 per cent from the preceding year.[6] The drop in revenues was particularly large on the lines operated in the United States, where it was 23 per cent as compared with 5 per cent on the lines in Canada. The earnings for this year failed to meet the operating costs by $54,700,000. The National Harbours Board earned $8,567,000 from its harbors and elevators during the calendar year of 1938. The Canadian National Steamships Limited took in operating revenues of $4,800,000 during 1938. The Canadian Broadcasting Corporation collected license fees and hook-up charges amounting to $3,311,000 during

[5] Public domain had provided considerable revenue for the Dominion prior to 1930 when the unalienated public lands were returned to the Prairie provinces. At that time, the Dominion government was getting over four millions of dollars annually from this source.

[6] Operating revenues for 1939 reached $203,820,000, the highest figure after 1930. During the war, operating revenues rose rapidly until they reached $441,000,000 in 1944, exceeding operating costs by $78,000,000, and providing a cash surplus of $23,000,000 after the deduction of interest, rents, and pension reserves.

the fiscal year 1938–39. The Trans-Canada Air Lines had not yet got its system in full operation by the end of 1938.

The Income Tax

The income tax, imposed in 1917 as a war measure, was for some time thereafter regarded as a temporary tax. But after twenty years it had not only become permanently established but it had grown to be the Dominion's chief source of revenue. According to the statistics available on the $120,000,000 of income tax collected in the fiscal year 1937–38, $40,000,000 were collected from 237,000 individuals, $70,000,000 from approximately 14,000 corporations, and $10,000,000 by special 5 per cent income tax. The special tax of 5 per cent was levied on the income of nonresidents of Canada when that income was derived from Canadian sources.[7]

The general rates of the income tax remained practically unchanged between 1932 and the autumn of 1939 when the war rates began to be applied. During this period the individual income tax ranged from 3 per cent on the lowest income to 56 per cent on the highest, after rather liberal exemptions had been provided for the lower income groups. The war rates applicable to 1939 income added a surtax of 20 per cent of the total income tax paid by individuals, and subsequent increases were made until 1944. The corporation income tax was and still is a flat rate, not being graduated as it is in the United States. It was 15 per cent before 1939, when the war rates raised it to 18 per cent. Since income tax collections (prior to the adoption of the "pay-as-you-earn" plan in 1942) began on April 1, on incomes earned in the previous fiscal year, peak income tax revenues lagged one year behind peak revenues from customs and excise duties and taxes. This arrangement, it was claimed at the time, had something of a stabilizing effect on year-to-year total collections.

Administration of the Income Tax

As pointed out in Chapter II, the Dominion income tax is administered by the Taxation Division (formerly the Income Tax Division) of the Department of National Revenue. The central office of this division is at Ottawa; it operates through a number of branch offices distributed over nineteen administrative districts (as of 1939) into which the country is divided. These districts are of varying sizes and shapes, depending upon density of population and railway and transportation lines. Each district is administered by an inspector of taxes, assisted by a staff of assessors and clerks. The inspectors report to the Deputy Minister of National Revenues for Taxation at Ottawa.

[7] This special tax was raised to 15 per cent in the spring of 1941 as a war measure.

The Dominion income tax procedure makes the taxpayer responsible for filing the proper yearly return. Informational returns are required from all employers and persons for the purpose of reporting salaries, dividends, interest, and other income payments. Ownership certificates are required from persons cashing interest coupons. This information with respect to each taxpayer is assembled at the district offices. When the income tax return,[8] filed in duplicate, comes into one of these offices, it is checked against the information already assembled for the particular taxpayer. This checking of the return, both as to figures contained in it and the assembled information, is a task of the assessing staff of the district inspector's office. The return then goes to the chief assessor and passes to the independent audit review board for the district. These boards each have a rotating membership of three assessors, one being replaced each year. A district assessor is not permitted to assess a given return for more than three successive years. Once every three years an auditor from the field must visit the place of business of the taxpayer. If the taxpayer's assessment is found satisfactory by the independent audit review board, his return is transmitted to the central office for approval by the auditors and, upon approval, returned to the district inspector. This procedure is designed to insure a fair assessment for the taxpayer and to prevent collusion between the taxpayer and the assessor. When the assessed income tax return is received again at the district office, it is passed to the accounting section which compiles therefrom the notice of assessment. The return is then filed under the heading of "finished work."

The money received by cash or check with the income tax return is handed to the cashier at the district office, who makes a book record of the amount and notes the serial number of the receipt to be issued.[9] He then issues the receipt in triplicate, the third copy being pasted to the taxpayer's return. The original copy is put aside to be mailed to the taxpayer as soon as his check has cleared through the bank. The duplicate copy is turned over to the accounting section for use in preparing the statements and ledger records for the central office. As a check on the handling of money by the cashier, the cash and the continuity of the serial receipt numbers are audited daily by internal auditors. At the central office the duplicate receipts are numerically filed and checked at the same time with the record of the receipt forms originally issued to the district inspector. The purpose of this rechecking is to detect missing serial num-

[8] Under the "pay-as-you-earn" plan of 1942 certain preliminary reports are also filed.

[9] This procedure has been somewhat modified by the "pay-as-you-earn" plan adopted in 1942.

bers, and thus bring the district office to account for them. The cashier deposits the checks and other receipts in the appropriate banks and receives therefor drafts drawn to the Receiver General of Canada. These drafts accompany the accounting section's statement to the central office. The drafts must equal the total of the cashier's receipts. At the central office a record is made on a control account and the drafts are passed on to the Department of Finance for deposit in the Bank of Canada.[10]

Contrary to the practice in the United States, the Dominion Taxation Division does not publish rulings on income tax cases decided by the division or issue extensive regulations to supplement the statute. The division, in other words, does not attempt before the event to expand or interpret the law by general rulings and regulations. It is therefore not embarrassed by having to interpret the interpretations in the light of the after-the-event facts, or of having to differentiate between a present case and several previously decided by the division.

The Dominion, following the British precedent, does not tax capital gains under its income tax law, as is the case in the United States. Canadian income tax officials claim that this feature alone has saved them from the wide fluctuations and instability in the income tax revenue frequently experienced in the United States. In a period of rising security prices and large profits in the stock market, United States income tax revenues soar, but in a period of rapidly declining prices these revenues shrink at an appalling rate. For example, between 1930 and 1933 the United States income tax revenues went down from $2,410,000,000 to $746,000,000, a reduction of more than two-thirds, even though the rates were increased. In Great Britain and in Canada a condition of relative stability obtained in income tax collections during this period.

Before the Dominion-provincial agreements of 1941 under which the Dominion government took over the income tax for the duration of the war, this tax was imposed in all of the provinces either by the provincial governments or by their municipalities. In this respect, the practice was quite similar to that in the United States, where the great majority of the state governments, as well as the federal government, impose income taxes. But the Dominion, by agreement with four of the provinces—Manitoba, Ontario, Prince Edward Island, and Quebec—administered the provincial income tax prior to 1941 along with its own. This work was undertaken for Ontario in 1936, for Manitoba and Prince Edward Is-

[10] C. Fraser Elliott, "The Administration of the Canadian Income Tax," *The Canadian Journal of Economics and Political Science,* August, 1938, pp. 377–90. This article, written by the Commissioner of Income Tax (later Deputy Minister of National Revenue for Taxation), covers in detail the administrative phases of the tax.

land in 1938, and for Quebec in 1940. To make it possible there had to be close similarity between the essential provisions of the provincial income tax laws and those of the Dominion income tax law. In the case of these four provinces and the Dominion government, there was one return, one tax, and one statement of the tax payable to satisfy dual jurisdictions. The collections were received by the Dominion for both jurisdictions, and then redistributed. The results were said to be quite satisfactory to all concerned.[11]

Customs Duties

The idea of a protective tariff was definitely accepted as part of the "national policy" of Macdonald and the Conservative party in 1878. The duties on imported goods, however, were never high. The average rate on all dutiable goods reached a maximum of about 22 per cent in 1889. Since then it has declined through many upward and downward shifts until it stood at about 13 per cent in 1938.

There are several reasons why Canada did not follow the example of the United States in setting up a high tariff wall. Without the economic self-sufficiency of the United States, the Dominion was unable to pursue a similar policy. Foreign trade was very necessary to its growth in the prewar period, something over 30 per cent of Dominion production being for export. A tariff of moderate duty schedules was therefore the logical one for Canadian commercial needs. At the same time it sufficed to meet the financial requirements of the Dominion over a great many years.

Canada's customs tariff has been described as a "three decker." To each of the 800 or more items in the duty schedules before World War II one of three rates applied. These rates were, and still are, known as "British preferential tariff," which is the lowest, "intermediate tariff" (now "most favored nation tariff"), and "general tariff." The lowest rate applies to goods which are produced or manufactured in British countries, and which are conveyed directly to Canada without transshipment. The intermediate rate applies to goods from certain foreign countries which enjoy the benefits of the British preferential or intermediate tariff. The general rate applies to goods from all other countries, including the United States. There is no constant ratio between these three rates, for every individual item, as S. P. Wheelock says, "is the result of a complex of historical and economic forces which has worked itself out through a series of trade agreements and budgetary changes."[12] One item, for

[11] C. Fraser Elliott, "Contrasts in Tax Policy of Canada and the United States," *Taxes* (The Tax Magazine), January, 1939, p. 51.

[12] Sidney P. Wheelock, "The Structure of the National Revenue," *Public Affairs* (Dalhousie University), December, 1938, p. 59.

example, may be free under all three tariffs; another item may be free, 15 per cent, and 25 per cent; while a third item may be 30 per cent all around. Special trade agreements with some countries (one became effective with the United States in 1936) complicate this picture still further, so that it is hardly possible to describe the tariff schedules without going into a mass of detailed figures. "Canada's customs tariff," says Mr. Wheelock, "is in some cases a protective tariff, in other cases a purely revenue tariff, and in many cases a mixture of the two." "It may be noted," he continues, "that in so far as a protective tariff succeeds in its avowed purpose of 'protecting,' it loses its usefulness as a producer of national revenue—at least directly."

Administration of Customs Duties

The Customs Division of the Department of National Revenue is responsible for the administration of the customs duties. The internal organizations of the Customs and Excise divisions have been pretty well coordinated, some of the units being operated in common. Four units—appraisal, check, drawbacks, and statistics—are operated exclusively for the customs work. The units dealing with inspection, refunds, law, supplies, laboratory, correspondence, etc., are operated in conjunction with the excise work. The accounts unit, serving both divisions, is under the direction of the Comptroller of the Treasury.

An extensive study of the administration of customs duties was made in 1928 by the accountancy firm of Clarkson, Gordon & Dilworth. In a report of about 100 pages concerning the reorganization of the Department of National Revenue, this firm set forth its findings on the customs work. It emphasized a great many things, such as reduction in the number of ports of entry, better appraisal of imported goods, the need for trained appraisers, inspection by traveling supervisors and appraisers; reorganization of the appraisal unit at Ottawa, coordination between appraisal and check units, improvements in preventive service directed against smuggling, and a staff of special investigators. Numerous suggestions were made with respect to the internal organization and staffing of the Customs Division. Many of these suggestions were carried into effect.

Excise Duties and Taxes

Excise duties and taxes constitute important sources of Dominion revenue. For the fiscal year 1938–39, excise duties amounted to about 10 per cent of the total revenue, while excise taxes amounted to over 32 per cent. It is not easy to distinguish between excise duties and excise taxes, but for practical purposes the Department of National Revenue

has drawn a line of demarcation. Excise duties are imposed on such commodities as tobacco and spirits, manufactured under government supervision, and the duty in each case must be paid before the commodities are released for sale. On the other hand, excise taxes are imposed on a wide variety of commodities, and the government can have no security before sale that the taxes will be paid.

In 1939 the bulk of the excise duties was derived from tobacco and tobacco products. On cigarettes, for example, the government received in duties and taxes from 39 to 45 cents on every dollar's worth. The remainder of the excise duties was made up principally of levies on spirits and on malt or malt liquor used in the manufacture of beer. The buyer of a standard brand of spirits paid about 28 cents of his dollar to the government, while a beer drinker paid approximately 15 cents. These figures, however, included both excise duty and sales tax. The provincial governments also levied on spirits and malt products through their profits on government sale. In the main, excise duties are levies on luxury consumption.

The sales tax is by far the most important element of the excise taxes, amounting in 1938–39 to over 24 per cent of the total Dominion revenue. It is a flat rate tax of 8 per cent, levied on the manufacturers' or producers' sale price of all commodities, with certain exceptions. These exceptions are principally foodstuffs, and the primary products of farm, forest, mine, and quarry, as well as certain commodities destined for use in religious, charitable, health, and educational institutions. The boats and supplies for fishermen are exempt from the tax, and more recently building materials.[13] These are examples of the government's effort to encourage special pursuits or promote particular industries. The sales tax is generally regarded as a heavy tax, especially upon the poorer class of people. Prewar discussions in government circles indicated a desire to reduce the existing high rate, but the needs of war financing deferred such action.

The sales tax was introduced in May, 1920, the rate then being 1 per cent. It was designed to aid in postwar financial reconstruction, and as such received the support of the commercial and industrial interests. Prior to 1924, the tax was sometimes levied several times on a single article. But the law was changed in that year to make it apply only to manufacturers' and producers' sales. About this time the Canadian Manufacturers' Association voiced strong opposition to the tax, denouncing it as both unfair and discriminatory to the manufacturers. The farm-labor element also opposed the tax. Political difficulties arose over it, and criticisms led the Minister of Finance to agree in 1926 that the tax

[13] The exemption was removed from building materials in 1941.

should be repealed. Until the depression started in 1930, this apparently remained the attitude of the Government. But then the Conservative party, which had opposed the tax, found itself in the embarrassing position of having to retain it. When the Liberal party came into power in 1935, the sales tax was not only continued but increased from 6 to 8 per cent. It now appears to have become a permanent source of Dominion revenue.

Besides the sales tax, there were several other excise taxes,[14] some of which brought in considerable revenue. The 3 per cent special excise tax on importations yielded over $15,000,000 during the fiscal year 1938–39. The excise tax of one cent per pound on sugar produced $11,000,000. The sale of excise stamps netted almost $5,000,000. Four other excise taxes ran over a million dollars each, namely, those on toilet preparations and soap, on matches and lighters, on cigars and cigarette papers, and on automobiles and rubber tires.

Administration of Excise Duties and Taxes

As already indicated under customs duties, the excise duties and taxes are administered by the Excise Division of the Department of National Revenue. This division functions through a central office at Ottawa, a field staff of auditors, and a staff at ports of entry. Its work really divides into two distinct branches—one concerned with excise duties and the other with excise taxes—which are carried on largely by separate staffs. Departmental integration has not affected the working of these staffs.

The excise duty work consists of control at the ports by the excise officers of the bonded premises in which such excisable commodities as spirits and tobacco are manufactured, stored, or used. Records are kept of these commodities and of the duties payable to the government when they are released for consumption. Distilleries, breweries, tobacco factories, and the like are controlled by excise officers both as to the materials entering into manufacture and the final products. A staff of inspectors check on the excise officers and report to the central office at Ottawa.

The excise tax work consists principally of interpreting the law and regulations as to the incidence of the several taxes, the collection of the taxes, and the audit of the taxpayers' records to confirm the accuracy of the tax returns. Frequent changes in the law governing excise taxes have made its interpretation more and more difficult. The sales tax, for example, is supposed to be a tax of single incidence, and that only on the sale by the final manufacturer or producer. Articles and materials may

[14] During World War II, a number of new excise taxes were imposed, and the rates of several prewar excise taxes were increased.

be purchased by manufacturers and producers free of sales tax, the tax being applied only to the completely manufactured products. For instance, an abattoir is permitted to sell hides free of the sales tax to a tanner; the tanner, after tanning the hides, is allowed to sell them without tax to a shoe manufacturer, and the shoe manufacturer accounts for the tax on the sale of the finished shoes.

Manufacturers or producers of taxable goods are required to obtain a sales tax license, which is renewable annually. This license is not a permit to manufacture or produce, but merely a departmental convenience and record. Each manufacturer or producer must keep certain records, and file monthly returns of his sales or other taxable transactions. The taxes shown by these returns are due and payable not later than the last day of the succeeding month, otherwise the division may invoke an interest penalty (ordinarily about 8 per cent). In spite of this penalty, excise tax arrears amounted to a considerable sum at times during the interwar period. The efficacy of the excise taxes, particularly the sales tax, as revenue producers depends very largely upon the ability and experience of the auditing staff which checks the tax returns. The size of this staff has been enlarged and its efficiency, which was rather mediocre at one time, has been considerably improved during recent years.

Prewar Expenditures of the Dominion

In 1908 the total annual expenditures of the Dominion government passed the hundred-million-dollar mark for the first time. Before the outbreak of World War I, these expenditures stood at $144 millions in round figures, or a per capita of $18.93. After Canada entered the war they mounted rapidly until they reached a peak of $786 millions for the fiscal year 1919–20. By 1925 they had dropped to the lowest figure for the postwar period, namely, $351 millions, or a per capita of $37.78. Then they gradually increased until they stood at $388 millions—a per capita of $38.78—for 1928–29, the last predepression year. During the next three years, the Dominion expenditures rapidly increased until they reached $532 millions, or a per capita of $49.79, for 1932–33. A wave of economy then brought them down for the next year to $458 millions, a per capita of $42.31. The reduction was made principally in salaries and in the expenses of national defense. The salaries of all government officials and employees were reduced 10 per cent, part of which was restored after two years and the remainder a few months later. After 1933–34 the total expenditures started upward again, reaching the 1932–33 level by 1936. The rise continued, so that by 1938–39 the total stood at $553 millions, or a per capita of $49.64. This figure represented an increase of 42 per cent

over the predepression total for 1928–29, just a decade before. During this period the per capita figure increased by a little more than one-fourth.

It is interesting at this point to compare the growth of national expenditures in the United States with that of Canada, especially during the depression period. There was considerable newspaper comment when the United States became a billion-dollar government in 1913. As indirect taxes were no longer sufficient to meet the cost of the government, the federal income tax was authorized that year by a constitutional amendment. The total expenditures then climbed rapidly to a peak of $18,800 millions in 1919; this was due to the participation of the United States in World War I. During the next five years they leveled off to a little over $4,000 millions, or a per capita of $35.52. A moderate increase raised the total expenditures by 1928–29 to $4,536 millions, equivalent to a per capita of $37.34. The depression followed immediately, and the expenditures increased in two years to $5,538 millions. The government changed hands politically in March, 1933, and the Roosevelt Administration under the leadership of Lewis W. Douglas, Director of the Budget, made deep cuts in the federal expenditures for operating purposes. Salaries of government officers and employees were reduced 15 per cent; even veterans' pensions were scaled down. As a result of these cuts, the total expenditures were reduced by more than $600 millions. But in 1934 when President Roosevelt began to expand his recovery and relief program, Mr. Douglas parted company with the President, and the expenditures of the government started moving rapidly upward. Salary and other reductions were soon restored, and billions were appropriated annually for recovery and relief. By 1938–39 the total expenditures of the government had reached $9,956 millions, or a per capita of $76.58. This figure represented an increase of 119 per cent over the predepression total for 1928–29; in other words, during this ten-year period the total expenditures of the United States government had grown two and one-fifth times. The per capita burden of expenditures had more than doubled for the same period even with the increased population.

It will be observed from the above expenditure figures that Canada pursued a much more moderate course than the United States during the depression. With a population approximately twelve times that of Canada in 1929, the United States spent for its national government roughly twelve times as much money, but in 1939 it spent over eighteen times more than the Dominion government while the population ratio of the two countries remained practically unchanged. This may be explained by the fact that Canada did not embark upon some of the costly recovery experiments undertaken by the United States. The Dominion

government, for example, never attempted any such widespread system of control as that pursued in the United States under the National Recovery Act and the series of agricultural control acts. The regulation of industry in Canada was confined largely to labor matters. The Dominion's intervention in agriculture was of a very different sort from that in the United States. First the provincial governments and later the Dominion government were drawn into the wheat marketing situation created by the collapse of price control under the Wheat Pool. Prior to 1934 the Dominion's role was confined to economic rescue in an emergency situation. But by the spring of 1935 the Dominion had to take over the selling agency, and in July created the Canadian Wheat Board to establish and maintain fixed minimum prices. The board's activities were confined to market intervention and the conduct of campaigns to increase British consumption of Canadian wheat. The Dominion government's major attempt at agricultural control was made under the Natural Products Marketing Act, effective in August, 1934, which provided for drastic control of marketing. The Act was declared invalid (*ultra vires* of the Dominion government) by the Canadian Supreme Court in June, 1936, and by the British Privy Council in 1937. The administration of the scheme, in contrast with similar organization in the United States, was placed in local committees controlled by producers; no attempt was made to regulate production by direct means, and each marketing project was required to be self-financing. The Dominion government accepted the decision of its courts and made no attempt at evasions such as appeared in the United States.

General Classes of Prewar Dominion Expenditures

Since 1936 the expenditures of the Dominion, as pointed out in Chapter V, have been grouped for accounting purposes under five general classes, namely, ordinary expenditures, capital expenditures, special expenditures, government owned enterprises, and write-down of assets. Ordinary expenditures include the operation and maintenance of regular government departments and agencies, national defense, and fixed charges for debt service, pensions, subsidies, and so on. Capital expenditures are for public works and similar projects which, by parliamentary definition, are considered of sufficient national importance to be capitalized. This definition, however, has been loosely applied at various times, so much so as to become the object of considerable criticism.[15] Generally speaking, expenditures for harbors at some of the leading cities, public buildings at Ottawa, and canals and railways are regarded as capital outlays, while expenditures for post offices, custom

[15] See above, Chapter III, pp. 68–70.

houses, and similar improvements are classed as ordinary expenses. Special expenditures are made chiefly for unemployment and agricultural relief and are not expected to continue indefinitely. Expenditures for government owned enterprises include operating deficits and loans and advances to these agencies. The write-down of assets affects the Consolidated Fund (renamed the Consolidated Deficit Account in 1944 to distinguish it from the Consolidated Revenue Fund) and usually means a reduction in the nonactive assets of the Dominion to take care of losses in such projects as land settlement and farm loans, or in railway stocks due to line abandonments.

The fiscal year ended March 31, 1939, produced the latest figures on Dominion expenditures which were unaffected by Canada's entrance into World War II. These figures are therefore used as the basis of this discussion, and follow the classification used in the blue book, *Public Accounts*, compiled by the Department of Finance. The grand total of Dominion expenditures, for this fiscal year, was slightly over $553 millions. This total, however, did not include approximately $200 millions expended by government owned enterprises during the period, which money did not clear through the Consolidated Revenue Fund. Only the operating deficits, loans, and advances made to government owned enterprises were included in this fund.

Ordinary Expenditures

The ordinary expenditures of the Dominion for 1938–39 constituted nearly 75 per cent of the grand total from the Consolidated Revenue Fund. Approximately a third of this amount went for the operation of the civil departments and agencies of the government, another third for Dominion debt charges, and the remaining third for national defense, war pensions, subsidies to the provinces, old age pensions, and retirement of government employees. The lion's share of the last third, over two-fifths, was expended on war pensions and other benefits to veterans.

The cost of operating the civil departments and agencies of the government was $136.6 millions, or roughly 25 per cent of the grand total expenditures. This amount included $35.4 millions for the operation of the Post Office, or 6.41 per cent of the grand total. The remaining $101.2 millions took care of the expenditure needs of the other civil departments and agencies.

The national defense expenditures of Canada of 1938–39 were not burdensome at $34.4 millions, or about 6¼ per cent of the grand total expenditures; that is, they were not burdensome when compared with those of Great Britain which amounted to 26.5 per cent of the total governmental expenditures for the same period. Anticipating that it

might be called upon to help Great Britain in another European struggle, Canada began in 1936 to accelerate its defense program, particularly the military and air services. During 1934–35 it spent approximately $14 millions for national defense, or less than half the amount expended in 1938–39.

The Dominion government was quite generous in its prewar expenditures for veterans' pensions, care, and benefits. The $55.6 millions expended for these purposes during 1938–39 represented over 10 per cent of the grand total expenditures. Great Britain for the same period expended 3.8 per cent of its total expenditures for war pensions. The war pension roll of Canada for 1938–39 was approximately $42 millions, and the treatment and aftercare of returned soldiers over $13 millions.

Under the provisions of the British North America Act and subsequent arrangements made from time to time, the Dominion was required to pay certain annual subsidies to the nine provinces. In addition, special grants were made to several of the provinces. In the aggregate, these subsidies and grants totaled more than $21.2 millions, or 3.84 per cent of the total expenditures for 1938–39.[16]

The prewar cost of old age pensions amounted to a considerable sum and showed evidences of steadily rising. The total cost for 1938–1939 was over $38 millions, of which the Dominion government paid 75 per cent, or a little more than $29 millions. The scheme was first entered into by the Dominion in 1927 under the provisions of the Old Age Pensions Act. It was based upon an arrangement with each province (the last province joined the scheme in 1936), terminable on ten years' notice. All provinces, including the Northwest Territories, now participate. The scheme provides pensions for persons 70 years of age and over, without requiring any prior contributions from the recipients. However, pension payments are confined to those who have no incomes or very small incomes, and the maximum pension, ranging from $19.36 to $24.69 per month (in 1947), is fixed in each province.[17] On March 31, 1947, there were 209,029 old age pensioners throughout the Dominion. In addition to the old age benefits, it was provided in 1937 that blind persons who reach the age of 40 may also receive pensions under the conditions of the Old Age Pensions Act. The Dominion pays 75 per cent of the cost of these pensions. On March 31, 1947, there were 7,311 blind pensioners who received between $22.84 and $25.00 per month in the various provinces. Under

[16] Subsidies and grants to the provinces are discussed more at length in Chapter X.

[17] Twenty-five dollars per month is the maximum old age pension to which the Dominion government will contribute. Recently some provinces have added supplemental amounts to which the Dominion does not contribute, the largest of such amounts being $5 per month.

the existing arrangement some doubt has been expressed as to whether the proportion paid by the provinces—25 per cent of the pensions plus administrative expenses—is sufficiently large to induce careful scrutiny on their part of all applications. Only limited control is exercised by the Dominion government through a postaudit of the vouchers. This examination is said to be rather ineffective, since it does not extend to a check on the accuracy of the means test which each province is required to apply before granting a pension and from time to time while the pension remains in force.[18]

Superannuation and retirement benefits for its civil employees required a contribution by the Dominion government of more than $2.2 millions for 1938–39. The total expenditure from the Dominion budget for the same period exceeded $2.8 millions, which covered the cost of administration as well as the government's contribution and various superannuation payments. The civil employees contributed $2.6 millions from their salaries, or the equivalent of 5 per cent as required by the Superannuation Act of 1924. At the same time the superannuation fund (No. 5), amounting to some $56 millions, earned approximately $2.2 millions in interest. The total annual contributions to and earnings of the fund therefore amounted to about $7 millions, while annual payments from the fund ran around $4.6 millions. Five small superannuation funds were also being maintained, four of which would eventually disappear when the retirement benefits were no longer required. Only funds Nos. 5 and 6 would continue, the latter fund being for widows and dependents of civil servants. The Dominion has had a superannuation act since 1870; this was superseded by a retirement act in 1898, which in turn was replaced by the Superannuation Act of 1924. Under the 1924 Act a civil employee is retired at age 65, or earlier if disabled or incapacitated. If he leaves the service before retirement for causes other than misconduct, he is paid in one lump sum, without interest, all the money he has contributed to the fund.[19] Allowances are made for the widow and dependent children in the event of the death of a civil servant, either before or after his retirement.

Finally, under the heading of ordinary expenditures, Dominion debt

[18] Recently the King Government proposed a system of national old age pensions entirely financed and administered by the Dominion government, and paid at the uniform rate of $30 per month regardless of means to all persons 70 years and over in Canada. It also proposed to pay 50 per cent of $30 per month Dominion-provincial old age assistance to persons 65 through 69 years of age. The provinces are to apply whatever means tests they may desire to this group. See *Proposals of the Government of Canada,* Dominion-Provincial Conference on Reconstruction, August, 1945, p. 37.

[19] If a civil employee resigns before ten years' service, he forfeits his contributions. An exception is made in the case of women resigning to get married. Membership in the superannuation plan is compulsory on all civil servants.

charges for 1938–39 reached practically a third of the ordinary expenditures or a fourth of the total expenditures of the government from the Consolidated Revenue Fund. This amount, which did not include payment for the services of the Bank of Canada in managing the debt, exceeded the percentage cost of the British national debt for the same period. Out of the total expenditure of $133.1 millions for Dominion debt charges, interest alone consumed $128 millions. Approximately $30 millions of this interest was payable outside of Canada, in London and in New York in about equal amounts. About $4.8 millions were required to satisfy a plan under which bond discounts and commissions were being annually amortized. As of March 31, 1939, some $60 millions had accrued in this way, of which about one-third had been amortized. The administration and servicing of the Dominion debt on the part of the Department of Finance required $237,000, while loan flotation charges amounted to $105,000 in round figures.

Capital Expenditures

The capital expenditures, as classified for 1938–39, amounted to $5.4 millions, or about 1 per cent of the total expenditures from the Consolidated Revenue Fund. Only a few thousand dollars of this amount were spent on railways. Practically the entire sum went for public works of one kind or another which were considered of such national importance as to have a capitalized value.[20]

For 1939–40 capital expenditures increased to $7 millions, which represented about a hundred per cent increase over those for 1936–37. Incidentally, the $3.5 millions recorded in 1936–37 was the lowest level for capital expenditures since the nineties of the past century. It followed a rapid decline from a $28 million level for such expenditures in 1930–31. Because of the somewhat arbitrary classification customarily employed in setting up capital expenditures, not a great deal of significance can be attached to the widely fluctuating volume of these costs.

Special Expenditures

Special expenditures, as a group, include those outlays which are regarded as being of a temporary nature. In prewar years, particularly during the depression, these expenditures were made for such purposes as unemployment relief, including special works and projects, western drought relief, wheat bonuses, and losses on grain marketing operations. For 1938–39 special expenditures aggregated $71.8 millions, or 13 per cent of the total expenditures of the government from the Consolidated Revenue Fund. This amount represented about the yearly average for

[20] See above, Chapter V, p. 128.

special expenditures between 1931–32 and 1938–39, during which period such expenditures had ranged all the way from $36 to $102 millions.

During 1938–39 unemployment relief, including special works projects, totaled $37.7 millions. Nearly half of this amount was turned over directly to the provinces as grants for unemployment relief. A considerable part of the remainder was spent on farm rehabilitation, the development of tourist highways, air transport facilities, and conservation projects. River and harbor improvements and repairs consumed the balance, about $6 millions. Relief expenditures in the western drought area, mainly in Saskatchewan and Alberta, required $9.1 millions. These expenditures were made very largely upon authority of warrants issued by the Governor General during the fiscal period. They provided for feed, fodder, and direct relief, and for the transportation of live stock in the dried-out areas. During this period, the Dominion government set up for the first time a reserve against estimated wheat losses, which amounted to $25 millions.

By an Order in Council, dated August 5, 1938, a basic price of 80 cents per bushel was fixed for No. 1 northern wheat at Fort William under the terms of the Canadian Wheat Board Act of 1935. Producers were informed that the Canadian Wheat Board was ready to pay this price for all wheat delivered to it from the 1938 crop. The board's operations in this crop were financed by loans obtained from a group of chartered banks and guaranteed by the Dominion. These loans exceeded $60 millions. The following year the Canadian Wheat Board Act was amended to set the basic price at 70 cents per bushel for the same kind of wheat. It was then that the reserve of $25 millions was set up to meet the possible losses of the board in handling the 1938 wheat crop. To this reserve an additional sum of $27 millions was added in 1939–40, and the total was turned over to the board which repaid guaranteed bank advances in a corresponding amount. The guaranteed bank loans outstanding on March 31, 1940, which related mainly to the purchase of the 1939 wheat crop, totaled approximately $43 millions.

Government Owned Enterprises

Expenditures for government owned enterprises during 1938–39 consisted mainly of sums for operating deficits and for loans and advances. These outlays in the aggregate amounted to $58.9 millions, or somewhat more than 10 per cent of the total expenditures from the Consolidated Revenue Fund. The lion's share of this amount, $54.7 millions, went to meet the yearly net income deficit of the Canadian National Railways. Small amounts were also required to cover the operating deficits of the National Harbours Board and the Trans-Canada Air Lines. But the def-

icit of the Canadian National Railways was the problem of real concern, a condition extending over several years. During the worst of the depression years, it ran around $60 millions annually, which amount did not include unpaid interest on government loans. Wartime conditions, however, served to increase railway earnings throughout the Dominion and soon wiped out the deficit of the Canadian National Railways. The Railways' deficit dropped to $40 millions for 1939, then to $17 millions for 1940, and disappeared during 1941, being replaced by a cash surplus of $4 millions, the first surplus since 1928.

The loans and advances for 1938–39 were made mainly to the National Harbours Board, $3.2 millions, with a small amount going to the Canadian National Steamships, Ltd. These loans and advances were treated as expenditures, since they earned no interest, and their repayment was not really counted on.[21]

Write-down of Assets

The write-down of assets has grown in recent years from a few thousand to several million dollars. For 1938–39 these write-downs amounted to $3.7 millions, consisting principally of a reduction of $2.7 millions in the Canadian National Railways Securities Trust Stock due to line abandonments. The remaining million came about mainly through losses in soldier and general land settlement projects and the cancellation of capital stock of the Canadian Farm Loan Board. For 1939–40 the write-downs jumped to $25.9 millions, more than two-thirds of which were due to the cancellation of relief loans to the province of Saskatchewan.[22]

Dominion Expenditures in the Aggregate

The grand total expenditures of the Dominion government for 1938–39 included about $200 millions more than the amount spent from the Consolidated Revenue Fund. This additional sum was earned and expended by the government owned enterprises, principally by the Canadian National Railways, during the calendar year 1938 or the fiscal year 1938–39. By inserting this sum under the heading of government owned enterprises, a considerably different picture, as shown on the next page, is presented in the percentage column.

It is apparent from this computation that more than a third of the Dominion's aggregate expenditures for the fiscal year 1938–39 were involved in its government owned enterprises. Although these enterprises are supposed to be self-supporting, at times some of them (particu-

[21] For a discussion of government owned enterprises, see above, Chapter III, pp. 70–76.
[22] For an explanation of write-downs, see above, Chapter V, p. 128.

	In thousands	Percentage of total
Ordinary Expenditures	$413,032	54.8
Capital Expenditures	5,424	.7
Special Expenditures	71,895	9.5
Government Owned Enterprises	258,943	34.5
Write-down of Assets	3,767	.5
Grand Total	$753,061	100.0

larly the railways and the harbor facilities) fall considerably short of the mark. During 1938–39, the enterprises on the whole financed themselves from their earnings to the extent of only about 70 per cent of their requirements. The Dominion taxpayers met the remainder of their costs. This arrangement with respect to the financing of the government owned enterprises has become a matter of established public policy.

The addition of expenditures made by government owned enterprises to those paid from the Consolidated Revenue Fund raises considerably the per capita cost of the Dominion government. As pointed out in the beginning of this discussion, the per capita expenditures from the Consolidated Revenue Fund for 1938–39 amounted to $49.64. This per capita was increased to $67.72 when the expenditures made by government owned enterprises from their earnings were added to those paid out of the Consolidated Revenue Fund.

Chapter VIII

THE DOMINION DEBT

PUBLIC DEBT is almost universally regarded as something to be avoided, yet it never is. Modern governments apparently cannot get along without incurring debt at some time or other. National emergencies, principally those resulting from war, often make borrowing an absolute necessity for all major governments. Apart from such exigencies, there are sundry domestic requirements which frequently cannot be met from current funds. Citizens of practically every area of government often want the convenience of various improvements which they cannot afford for the present, but which they hope to be able to pay for later. They therefore demand that their governments resort to the use of public credit in financing these improvements. While they know that by this method the improvements will cost them in the long run perhaps double the initial outlay, they are nevertheless satisfied with having had the use of the improvements in the meantime. Not infrequently some governments are poorly or extravagantly managed, and thus incur operating deficits which have to be met by increasing the public debt.

But there is another side to the debt picture which is not totally drab. It is said to be in the public interest for a comparatively young and rapidly developing country, like Canada, to have plenty of government securities for investment purposes. There is always need in such a country for securities which can be traded in with reasonable safety and which will not fluctuate widely in values. Government bonds meet the growing public demand in these respects. Such bonds also help to reduce speculation and prevent losses to citizens who can ill afford to hazard their savings. Indeed, Dominion government securities are very appropriate for these purposes, and stand at the top of the Canadian list as sound trust fund investments. The fact, too, that nearly all of these securities are now internally held has its advantages: the interest is paid to the Canadian people themselves and their taxpaying capacity is thereby considerably increased.

Historical Sketch of Dominion Debt

Government debt before the time of Dominion federation was incurred by the British North American colonies mainly for transportation facilities, such as railways, canals, and harbors. The Province of Canada had gambled heavily in developing the St. Lawrence waterway as a means of tapping the trade of the middle west, and at the same time it had made an expensive bid for commercial power through extensive railway loans. The Maritime provinces had undertaken ambitious railway programs in order to link themselves to Canada and the continent to the West. The canals proved to be dismal failures and the railways got into financial difficulties soon after they were completed. The loans for these purposes quickly fell into default in the Province of Canada, and the Maritime provinces had to meet their interest charges out of general taxation. By 1866, the provincial debt charges absorbed 21 per cent of the current revenue of Nova Scotia, 28 per cent of that of New Brunswick, and 30 per cent of that of Canada. Repeated budget deficits endangered the credit of the provinces in the London money market and made it increasingly difficult to secure loans at rates which the provinces could hope to meet. Deficits had forced the union of Vancouver Island with the mainland and the infant Province of British Columbia was wrestling with a debt which amounted to over $100 per white inhabitant.

This situation provided a great impetus toward Dominion federation. The centralization of finance was necessary to the promotion of further development. With some minor exceptions, the public debts of the provinces were completely assumed by the Dominion, and the public works facilities owned by the provinces were brought under the control of the Dominion. A gross provincial debt of approximately $98 millions was assumed by the Dominion, about three-quarters of which came from the Province of Canada and the remaining quarter, in varying amounts, from New Brunswick, Nova Scotia, Prince Edward Island, and British Columbia. This total amount constituted the Dominion debt when the new government got well under way, and figured about $21 per capita for the whole country.

Growth of Debt from 1867 to 1896

During the first thirty years of its existence, the Dominion government more than tripled its debt. In 1896 the debt amounted to about $325 millions, virtually all of which had been incurred for developmental purposes. The Dominion had succeeded in keeping down expenditures for general government, and at the same time had been practically free

of expenditures for defense which during this period had weighed quite heavily on European governments. It therefore devoted most of its surplus revenue, which at times was considerable, to a program of internal development. Transportation, agriculture, and public domain sometimes consumed more than half of the Dominion's expenditures. Financial aid in the building of the Canadian Pacific Railway during the early eighties added considerably to the Dominion's liabilities. As a result, the Dominion found its debt charges somewhat embarrassing during the general depression which followed, so much so that it did not undertake any further large developmental projects during this period. Its dependence largely upon customs revenue linked its total income quite closely to the ups and downs of international trade and investment. As imports and business from abroad increased, so did the Dominion's revenues, thus inspiring its government to extend commitments for further development. But the general business stagnation of the early 1890's put a stop to these commitments. Customs receipts in 1895 were $5.5 millions below what they had been in 1883, while debt charges and other governmental expenditures were gradually going up in spite of efforts to keep them down.

Expansion Period from 1896 to 1913

The period between 1896 and 1913 was one of growing prosperity; in fact, Canada experienced during this time a wheat boom, extended settlement of new areas, and marked industrial expansion. Public expenditures were quadrupled; two new provinces were created, Saskatchewan and Alberta; and two others, Manitoba and British Columbia, grew to maturity. Rapid urban development in eastern Canada greatly increased governmental activity. Government subsidies were widely dispensed to encourage agricultural and manufacturing production. In spite of rapidly growing expenditures, the Dominion government continued to pile up surpluses during this period. For 1912–13 the surplus alone was nearly double the total gross revenues of the Dominion in 1896, although considerable capital expenditures were charged to the current account. At the same time the per capita debt charges had been reduced, owing to increased population and lower interest rates. The per capita interest charges were slightly less in 1914 than they had been in 1875, in spite of the addition of $393 millions to the direct debt of the Dominion. On the eve of the outbreak of World War I in 1914, the Dominion's gross debt stood at $544 millions. This debt had been largely incurred for internal improvements, hence presumably for productive purposes. It was mainly held outside of Canada, the major part of it being payable in London.

Effect of World War I Financing on Debt

During the period of World War I from 1914 to 1920, the Dominion experienced the first large upswing in its debt, which increased almost six times in as many years. The gross debt stood at slightly more than $3 billions on March 31, 1920. It had been incurred mainly for war expenditures and for the acquisition of certain Canadian railways. The war and demobilization had cost $1.68 billions, while the Dominion had spent on capital account, excluding the assumption of the guaranteed railway liabilities, about $1.1 billions.[1] During this period the Dominion was required to raise, over and above its ordinary expenditures, about $2.8 billions. Taxation provided only about $440 millions of this amount, the remainder being financed by borrowings and credit expansion.

Before World War I, the Dominion government had never raised as much as $5 millions in Canada by way of a long-term loan. In 1914, less than $700,000 (a little more than one-tenth of 1 per cent) of the entire Dominion debt was payable in Canada. The government now undertook for the first time to float large domestic loans. The first of these loans—$50 millions, later raised to $100 millions—was offered in November, 1915; it consisted of 5 per cent 10-year tax exempt gold bonds, issued at 97½. Subsequently, five other domestic loans were floated, one for $100 millions, two for $150 millions each, and two for $300 millions each. The first two of these loans were 5 per cent tax exempt 15- and 20-year gold bonds, which sold at a slight discount; the last three, running for various terms but not exceeding 20 years, were 5½ per cent gold bonds and sold at par. Only the last issue, sold in November, 1919, was taxable. All of the issues were oversubscribed. About $150 millions of loans were floated in New York, principally to stabilize exchange and to relieve the pressure on London. The arrangement with Great Britain to finance the Canadian costs of the war broke down in the summer of 1915 when sterling exchange went to a large discount. Thereafter, Great Britain could do no more than finance the Canadian war expenditures made overseas. The Dominion government paid the costs incurred at home and made advances to Great Britain for a considerable part of her purchases in Canada. During the last two years of the war, the Dominion advances to Great Britain, including those made by Canadian banks, far exceeded those of Great Britain to the Dominion. In effect, the

[1] Of this latter amount, $640 millions were spent on railways and canals, $115 millions on public works, $80 millions on soldiers' settlement, $155 millions on advances to the United Kingdom and foreign governments, and about $110 millions on miscellaneous works and advances.

Dominion was buying a large share of her own exports and shipping them abroad where they paid for the cost of the war.

World War I costs and certain capitalized expenditures resulted in an increase of $2.3 billions in the debt of the Dominion. An additional $700 millions were added through the assumption of the guaranteed and other liabilities of two transcontinental railways. The total direct and indirect debt of the Dominion government rose from half a billion in 1913 to three and a half billions in 1921, while the per capita debt burden mounted upward from about $40 to approximately $300. During the same period current expenditures went up from $118 millions to $354 millions. Of this increase, about 56 per cent went to debt charges, 22 per cent to war pensions, and the remainder largely to the higher price and wage levels affecting the ordinary services of government. This situation represented a revolutionary change in the government's finances. For the first time in the Dominion's history almost half of the total outgo of the government consisted of transfer expenditures which yielded no immediate services. About $100 millions of interest payments were on debts for which there existed no productive assets, and $54 millions were expended on soldiers' pensions and aftercare.

Postwar Prosperity, 1921–1930

During the period of postwar prosperity from 1921 to 1930, the Dominion government was able to reduce its gross debt by about a half billion dollars. Through a number of refunding operations it succeeded in bringing down the average interest rate from 5.16 per cent to 4.92 per cent. Several of the refunding issues were sold in New York. However, the great bulk of the funded debt, about $2 billions, remained in the hands of the Canadian people in 1931. About a quarter billion dollars were payable in New York, and approximately the same amount in London.

But a great change took place during this decade in provincial and municipal finances. While the total per capita debts and expenditures of the Dominion declined, those of the municipalities rose by over 20 per cent and those of the provinces by over 70 per cent. The provinces, it appears, were required during this period to finance the major part of the expanding public functions. As a result, the current expenditures of the provincial and municipal governments increased by about $170 millions, while those of the Dominion government increased by only about $30 millions. Approximately one billion dollars was added to the debt burden of the provinces and municipalities, largely incurred for highways, public utilities, and various kinds of developmental projects.

The Depression and Dominion Debt

Then came the world-wide depression, starting in 1930 and continuing (though in a somewhat abated form toward the end) until the beginning of World War II in 1939. Perhaps the most significant aspect of the depression in Canada was the great strain it put on the public finance system. The severity of the strain grew out of the general nature of the economy, the federal division of powers and responsibilities, and the economic policies of the Dominion. Great disparities developed in some regions and provinces under the impact of the depression. The controls exercised by the Dominion government over tariffs and monetary matters were instrumental in modifying some of these conditions. But according to the report of the Royal Commission on Dominion-Provincial Relations: [2]

> . . . the national economic policies which were adopted, whether or not they were wise in view of all the circumstances, did little to improve this situation and in some respects intensified it. In so far as these policies were not used to bring about a more even distribution of losses, the greater was the strain on the decentralized system of Canadian public finance. The larger the decline in the income and the larger the consequent rise in government expenditures in the most unfavourably situated provinces, the more rapidly did local revenues and credit become hopelessly inadequate and the larger was the support which had to be obtained from the Dominion.

The Dominion government's financial aid in meeting the effects of the depression took three definite forms. One form was assistance to a few severely depressed industries; another was assistance to all provincial governments to help them in meeting relief costs; and a third was special assistance to the most hard-pressed provincial governments to prevent them from defaulting on their debt and to enable them to continue essential services. The railways and the wheat and coal industries required the most help from the federal government. During 1931 and 1932 the annual operating deficit of the Canadian National Railways exceeded $112 millions, and gradually tapered down to about $40 millions by 1939.[3] Subventions to the wheat and coal industries were very much less, but still quite substantial amounts. The Dominion government assumed about 40 per cent of the total expenditures for relief made by the provinces and their municipalities during the depression. The government's share started at about $34 millions per year in 1931, and rose to $55 millions in 1937. In addition the government loaned

[2] *Report*, Book I, p. 160.

[3] The earlier figures (prior to the Capital Revision Act of 1937) included about $36 millions of unpaid interest on obligations due the government.

$106 millions to the four western provinces to enable them to meet their portions of the cost. The plight of some of the provinces required considerable increases in the unconditional subsidies made by the Dominion. The special grants to Prince Edward Island, Nova Scotia, and New Brunswick were increased by $150,000, $425,000, and $300,000, respectively, in keeping with the recommendations of the White Commission. British Columbia was also given an additional $750,000. During 1937, special temporary grants were made to Manitoba and Saskatchewan of $750,000 and $3,500,000, respectively, to help them finance essential governmental services. The total increase of $7 millions in the Dominion's unconditional subsidies was, however, considered inadequate to meet the growing provincial needs.

As a result of depression financing, the Dominion government's gross debt rose from approximately $2.5 billions in 1930 to $3.6 billions in 1939, an increase of about $1.1 billions. The largest annual increment to the debt was $220 millions in 1932–33. Through successive conversion and refunding of bonds, it was possible during this period to reduce the average interest rate from 4.92 to 3.52 per cent. This reduction brought down the annual interest charge on the debt until it was less in 1939 than it was at the peak of the World War I debt in 1922, although the total debt was a half billion dollars more in 1939.

Effect of World War II Financing on Debt

During World War II the gross debt of the Dominion government rose from $3,710 millions in 1939 to $18,959 millions in 1946, and the net debt for the same dates rose from $3,152 millions to $13,421 millions. This gave a gross debt increase for the war period up to March 31, 1946, of $15,249 millions and a net debt increase of $10,269 millions. For each of the four fiscal years, before March 31, 1946, the Dominion debt rose in net figures over $2,000 millions (over $3,000 millions for the last year), or more than the total Canadian cost of World War I. This indicates something of the huge task of financing World War II which was imposed upon a nation of about 12,000,000 people.[4]

On March 31, 1946, the per capita gross debt of the Dominion was approximately $1,541 and the per capita net debt $1,091. This, however, appeared to be the high-water mark of postwar indebtedness for the Dominion. By the following fiscal year the gross debt had decreased to $17,698 millions and the net debt to $13,047 millions. The peak per capita debt burden of the Dominion was therefore not nearly as great as that imposed by the war on the United States, with the advantages

[4] For a discussion of how the Dominion financed the cost of World War II, including its loan campaigns, see Chapter IX, especially pp. 198–201.

of youthful resilience, broad industrial expansion, and unexploited natural resources on the side of Canada.

A brief comparison of the debt involved in financing the two world wars is significant in this connection. In the five years from 1914 to 1919, the Dominion debt increased about six times, but the annual interest charges rose more than nine times since the average interest rate went up from 3.58 to 5.02 per cent. Furthermore, about one-third of the debt was payable outside of Canada, and a substantial portion of it was in tax exempt securities. In addition, commodity prices had more than doubled during that period, and were on the point of taking a nose dive.

The debt situation from 1939 to 1946 is in notable contrast to that of the earlier war. Although the funded debt of the Dominion had increased almost four times during the period of World War II, the average rate of interest had declined from 3.52 to 2.54 per cent (with a slight upward turn the last year), while the annual interest charges had risen only two and a half times. If one took into account the greatly increased revenue collected by the Dominion government, these charges had increased an even smaller proportion. The share of the Dominion debt payable outside of Canada had fallen from 26 per cent to a little more than 3 per cent, and there were no tax exempt bonds.

Provisions Governing Debt Issuance and Management

There is a formal process, as in all parliamentary governments, by which the Dominion debt is incurred. The normal practice is for the House of Commons to authorize all loans. When the government wishes to add to the Dominion debt by borrowing, it must introduce (usually through the Minister of Finance) a resolution in the House of Commons, which is then discussed in committee of the whole. This resolution ordinarily reads that "the Governor in Council may, in addition to the sums now remaining unborrowed and negotiable of the loans authorized by Parliament, by any Act heretofore passed, raise by way of loan, under the provisions of the Consolidated Revenue and Audit Act, 1931, by the issue and sale or pledge of securities of Canada, in such form, for such separate sums, at such rate of interest and upon such other terms and conditions as the Governor in Council may approve, such sum or sums of money, not to exceed in the whole the sum of . . . dollars, as may be required for . . . purposes." When the Committee of Ways and Means has passed and reported this resolution, it is embodied in a special act, or in the next appropriation act, more often the latter. Ordinarily, the loan may be issued as soon as the resolution has passed the Committee without waiting for the passage of the act; but the act must be passed before the first payment of interest can be made on the

new securities. Loan acts ordinarily confer borrowing power on the government sufficient to meet normal requirements for two years. These acts are not passed for specific loans.

The general regulations governing the issuance of loans and the management of debt are to be found in Part II of the Consolidated Revenue and Audit Act of 1931. The Governor in Council is empowered by authority specifically granted by Parliament in each instance to raise loans, to determine the form of such loans, the rate of interest, and any other terms and conditions (sec. 8). The principal and interest of such loans are chargeable to the Consolidated Revenue Fund. The securities issued under each loan must be signed by the Deputy Minister of Finance and countersigned by another officer of the Department of Finance. Facsimile signatures may however be used. Provisions are made for a record of all securities issued (sec. 19) and for the transfer of securities registered in the name of a deceased person (sec. 18). In fact, the Deputy Minister of Finance is required to "keep a record and description of all securities outstanding or authorized to be issued, showing the date of issue, period of redemption, when they were cancelled, and times of payment of interest, and an interest account respecting them." The Auditor General is required to examine, together with the Deputy Minister of Finance, all securities which are redeemed and cancelled, or cancelled for any other reason, prior to being destroyed. A general provision (sec. 7) permits the Governor in Council to make regulations for the management of the debt (now turned over to the Bank of Canada) and the payment of the interest thereon, for the creation and management of a sinking fund or other means of securing the repayment of any loans raised under the authority of Parliament, for the appointment of one or more fiscal agents of Canada in any country to negotiate loans and to pay interest on securities held abroad, and for the payment of such expenses as are incurred in the issuance and redemption of loans out of the Consolidated Revenue Fund. The Governor in Council is permitted (sec. 14) to raise temporary loans to meet deficiencies in the Consolidated Revenue Fund. A detailed account of all such temporary loans must be laid before the House of Commons within the first fifteen days of the next ensuing session of Parliament.

The Dominion's Existing Indebtedness

The Dominion debt may be classified under two general headings: direct debt and guaranteed debt. The direct debt consists of funded, temporary, and floating debt, plus liabilities to certain trust, special, and contingent funds. As an offset to these liabilities, there are certain assets represented by cash on hand, sinking funds, and active loans and in-

vestments. The final result is the net direct debt. The guaranteed debt consists of certain bonds and debenture stocks, mainly of railways, which have been underwritten by the Dominion as to principal or interest or both. In addition, there are some other guaranteed liabilities, such as bank advances to provinces, wheat and grain associations, and housing agencies.

Direct Debt of the Dominion

Nearly all of the direct debt of the Dominion is funded. It consists of coupon and registered bonds, debenture stocks, notes, and treasury bills. The bonds held in Great Britain and payable in London are generally known as stocks, and are either inscribed or registered. The debenture stocks are held by the Prairie provinces, having been issued to them for school lands. The notes are short-term securities, usually running from one to five years. The treasury bills denote short-term paper, usually for three months—89 to 94 days—which is sold at a discount. This type of paper was first put on the market in 1934.

The bonds outstanding on March 31, 1948, amounting to over $14 billions, carried interest rates of from 1¾ to 4½ per cent. When issued, some of these bonds ran for as long as fifty years, and one issue was perpetual (callable after thirty years). In recent years, however, the policy has been to issue bonds with shorter terms, not exceeding twenty or twenty-five years. The retirement schedule for the bonds outstanding on March 31, 1945, would require them all to be redeemed by the end of 1966, provided the perpetuals were called soon after September 15, 1966. The retirement load for several of the years in this schedule is, of course, beyond the ability of the Dominion to meet, except by refunding issues. It will be necessary for the Dominion government to do a great deal of refunding over the next fifteen or twenty years in order to adjust the debt burden to the country's tax resources.

The debenture stocks issued to the three Prairie provinces on account of school lands carry 4 per cent interest and are renewable annually. They amount to a little over $33 millions. Outstanding notes amounting to $800 millions, are for one, two, and three years carrying 1 to 1½ per cent interest.

The treasury bills when first sold in 1934 cost as much as 3.12 per cent. But within two years they were selling at around a 1 per cent discount, and were being issued at the rate of about $600 millions a year. They reached their lowest discount, namely .465 of 1 per cent, on June 15, 1938; then the discount rate rose somewhat, taking a sudden jump to .925 of 1 per cent on September 29, 1939, just after Canada entered World War II. The discount rate thereafter settled back to around .365

of 1 per cent for the duration of the war, rising recently to .410 of 1 per cent. For wartime purposes, the limit of the amount of treasury bills which may be outstanding at any one time was raised from $155 millions to $380 millions. This 1944 limit enabled these bills to be sold at the rate of over a billion and a half dollars a year. With the exception of some issues which were sold directly to the Bank of Canada, these bills have all been offered for public tender.

Since April, 1940, war savings certificates, war savings stamps, and noninterest bearing certificates, which are regarded as being a part of the funded debt, have been offered to the public. The war savings certificates bear 3 per cent interest, if held to maturity at 7½ years. The stamps, like the other certificates, are noninterest bearing.

The total funded debt of the Dominion, as of March 31, 1948, was approximately $15.9 billions. On this date the floating debt of the Dominion amounted to $474 millions. It was composed mainly of four items: outstanding checks, $102 millions; funded debt matured and unpaid, $32.4 millions; interest due and unpaid, $78.4 millions; and stocks and other obligations payable on demand, $252 millions.

Debt liabilities in connection with certain deposit accounts and trust funds aggregated about $113 millions on March 31, 1948. Sums due to government insurance, pension and annuity funds amounted to over $602 millions. Deferred credits, sundry suspense accounts, provincial debt accounts, and reserve for certain contingent liabilities aggregated $655 millions.

The total direct debt of the Dominion on March 31, 1948, stood at $17.2 billions. As an offset against this gross debt, there were certain assets represented by cash on hand, loans and advances, investments, and miscellaneous items, totaling $4.8 billions. The net direct debt on this date therefore amounted to $12.4 billions.

Indebtedness Guaranteed by the Dominion

Besides the direct debt of the Dominion, discussed above, there are some indirect obligations in the nature of guaranteed indebtedness. These obligations arise mainly out of the guarantee of securities held by the public. A large part of these securities has been issued by the railway lines which now form the Canadian National Railways. The government policy of guaranteeing railway bonds and debenture stocks was embarked upon soon after the turn of the century. Since that time, notably since the end of World War I, the Dominion government has guaranteed its railway securities in increasing amounts.[5] On March 31, 1947, Canadian National Railways securities were guaranteed as to both

[5] Recent retirements of railway bonds have somewhat reduced these amounts.

principal and interest to the amount of $528 millions. All but about $45 millions of this amount (deposited in the Canadian National Railways Securities Trust) was held by the public. An additional $8 millions of railway securities were guaranteed as to interest only by the Dominion government.

Certain other securities of transportation and public works agencies, aggregating more than $30 millions on March 31, 1947, were guaranteed both as to principal and interest by the Dominion government. This amount represented the bonds of the Canadian National (West Indies) Steamships, Ltd., and the securities of various harbor commissioners.

Miscellaneous guarantees of one kind or another had been authorized in definite amounts by the Dominion government to the extent of $174 millions as of March 31, 1947. In addition the deposits maintained by the chartered banks in the Bank of Canada had been guaranteed. These deposits amounted to $536 millions on March 31, 1947. This guarantee of bank deposits has been in force since the Bank of Canada started to do business on March 11, 1935. The Dominion, however, will be called upon to make good on the guarantee only "in the event of the property and assets of the Bank of Canada being insufficient to pay its liabilities, and if the Bank suspends payment of any of its liabilities." An indeterminate guarantee had also been authorized, which related to loans made by approved lending institutions under the National Housing Act.

Against the miscellaneous guarantees, authorized to the extent of $174 millions, there were outstanding on March 31, 1947, about $15 millions of guaranteed obligations. These obligations consisted mainly of bank advances to the Province of Manitoba Savings Office, treasury bills of Manitoba, debentures of Housing Enterprises of Canada, Ltd., loans under the Home Improvement Loans Guarantee Act, and loans made by the chartered banks under the Farm Improvement Loans Act of 1944.

Debt Payable in Foreign Currencies

A unique feature of Canadian governmental debts at the outbreak of World War II was the high proportion payable in foreign currencies. In 1939 only about 60 per cent of the total Dominion and Canadian National Railways debt, and 50 per cent of the total provincial debt, were payable exclusively in Canadian currency. Interest payments in foreign currencies amounted to some $115 millions a year, and maturities averaged about half of this amount. The potential exchange burden for the Dominion and provincial governments, especially for the latter, was a major item, and one that was completely beyond the control of the provinces, at least so far as past commitments were concerned.

"These debts," said the Report of the Royal Commission on Dominion-Provincial Relations,[6] "were contracted when maintenance of the gold standard was taken for granted, and only fractional foreign exchange rate fluctuations were anticipated. The possibilities of wide variations in the exchange rate due to external and uncontrollable forces, and deliberate variations to facilitate economic adjustment and to redistribute burdens and income internally were not appreciated. Within the last decade, however, exchange rate control has become a recognized and almost respectable weapon in every nation's arsenal of economic policies. It has also become apparent that if this weapon is to be used effectively it must be in the hands of one body, and that all commitments in foreign currencies, by governments or individuals, must be subject to the control of that body." This was one of the arguments presented by the Commission in 1940 in support of its recommendation that the Dominion should assume all provincial debt charges.

At the time of Canada's entrance into World War II, about 14 per cent of the funded debt of the Dominion was payable in New York and about 12 per cent in London. During the war the Dominion government bought back or "repatriated" nearly all of its funded debt securities held in Great Britain, as a method of assisting the mother country in financing the war. On March 31, 1946, only about $12 millions, or less than one-tenth of 1 per cent of the total funded debt of the Dominion, remained payable in London. At that time, $178 millions, or a little more than 1 per cent, of the total funded debt was payable in New York. While the Dominion government was fast retiring all of its debt payable in foreign currencies, the provinces were not able to make any appreciable change in their commitments in foreign currencies.

Interest Rates and Debt Stability

Before World War I, interest rates were rather moderate, but the borrowings and monetary manipulations involved in financing that struggle tended to raise them to comparatively high levels in all the participating countries. These high rates of interest had to be met until such time as refunding became possible. The average rate of interest paid by the Dominion government on its direct obligations, which was 3.36 per cent on March 31, 1913, rose to 5.16 per cent on March 31, 1922, and gradually declined thereafter to 3.52 per cent on March 31, 1939. But in 1939 the total interest burden of the Dominion was almost as heavy as it had been in 1922, owing to additional debt contracted during the depression years. The size of this burden is indicated by the fact that the interest charges on the total debt of the Dominion for the fiscal year

[6] *Report*, Book II, p. 123.

ended in 1939 amounted to about 30 per cent of the total tax revenues and nearly 26 per cent of the receipts from all sources. The per capita interest burden for that year was about $11.50.

A deliberate effort was made by the Dominion government to scale down the average interest rate in financing World War II. So successful was the government in doing this that the average rate of interest on the Dominion's direct funded debt was 2.51 per cent on March 31, 1945.[7] The computed annual interest charges on this debt, as of that date, were $346.4 millions. These charges amounted to 16 per cent of the total tax revenues for the fiscal year 1944–45, and to 12.8 per cent of the total receipts for that period. The per capita interest load for that year was about $29.

This situation caused Mr. Ilsley to declare that while the Dominion

TABLE I. CANADIAN DEBT, 1943 and 1945

Units of Government	Amounts (Millions)	Per Capita
Dominion:		
Gross direct debt (March 31, 1945)	$15,712.1	$1,331
Guaranteed debt (March 31, 1944):		
Railways, guaranteed as to principal and interest	772.2	
Railways, guaranteed as to interest	155.3	
Total railways	927.5	
Transportation and public works agencies	32.3	
Guarantee of bank deposits in Bank of Canada	359.2	
Other guarantees (excluding indeterminate amounts)	387.0	
Total guaranteed debt	1,706.0	145
Total Dominion debt	17,418.1	1,476
Provinces (1943):		
Gross direct debt	2,049.7	
Guaranteed debt	189.2	
Total provincial debt	2,238.9	191
Municipalities (local units) (1943):		
Gross direct debt	1,285.4	
Guaranteed debt	57.0	
Total local debt	1,342.4	115
Grand Total (gross debt)	20,999.4	1,782
Less sinking funds and other debt offsets	4,868.4	416
Grand Total (net debt)	$16,131.0	$1,366

[7] By March 31, 1947, the average interest rate had risen to 2.65 per cent, and the computed annual interest charges on the debt were $437 millions, or a per capita interest load of about $35.

debt had greatly increased, the national income and with it the capacity of the Canadian people to carry the debt had fully doubled since the beginning of the war. He pointed out, too, that the debt was almost wholly held within Canada: [8]

What is paid in debt charges goes into the pockets of taxpayers whose tax-paying capacity is thereby increased. We have, through the great efforts of the War Finance Committee and as a matter of deliberate policy, succeeded in distributing our new borrowing very widely so that the interest on the public debt will be paid, not to a few institutions and men of wealth, but to probably not less than 60 per cent of the income earners of this country. These are reasons why I have confidence in the ability of the country to carry this debt and in the soundness and stability of these bonds as an investment.

Total Public Debt of Canada

A summary of the total public debt of Canada presents an interesting picture. The gross debt—Dominion, provincial, and municipal—is exhibited in the accompanying Table I. The dates for which the figures are compiled are indicated on the table. The per capitas are calculated in

Table II. U. S. A. DEBT, 1942 and 1945

Units of Government	Amounts (Millions)	Per Capita
Federal Government:		
Gross direct debt (August 31, 1945)	$250,574	$1,790
Contingent debt (capital stock and guaranteed obligations of government corporations and agencies)[1]	12,961	92
Total federal debt	263,535	1,882
States:		
Gross direct debt (1942)[2]	3,271	24
Local Units:		
Gross direct debt (1942)[2]	15,729	117
Special assessment obligations	482	4
Total local debt	16,211	121
Grand Total (gross debt)	283,017	2,027
Less sinking funds and other debt offsets	14,891	107
Grand Total (net debt)	$268,126	$1,920

[1] *Treasury Bulletin*, October, 1945, pp. 25, 27.
[2] *Governmental Finances in the U. S.*, 1942, Census Bureau, p. 15. Local governments are indebted for $482 millions of unguaranteed special assessment obligations payable exclusively by benefited property owners. The federal government is without sinking funds, but it is assumed that the contingent debt is largely realizable, so that $12,961 millions is added to the sinking funds of state and local units, amounting to $486 millions and $1,444 millions, respectively.

[8] Finance Minister J. L. Ilsley's Budget Speech, in *House of Commons Debates*, June 26, 1944, p. 4295.

even dollars. Sinking funds and other debt offsets are deducted from the grand total gross debt to give the net debt.[9]

Table II presents comparable figures for the United States on gross and net debt and per capitas. It is interesting to note how the per capita debt figures of the United States range with those of Canada on roughly comparable dates. The gross federal debt of the United States shows a per capita of $1,882, while that of Canada is $1,476. The state governments of the United States show per capita debts of $24 and the provinces of Canada per capita debts of $191. The per capita debts of the local units of government in both countries are very close to each other (United States, $121; Canada, $115). The gross debt per capitas are $2,027 for the United States and $1,782 for Canada. But the net debt per capitas give Canada an even greater advantage over the United States, since Canada maintains larger sinking funds and other offsets in proportion to the volume of its gross debt. Canada's per capita net debt is $1,366, while that of the United States is $1,920.

The ratio between the total annual interest charges (about $454 millions) and the gross revenues (about $3,394 millions) of all governmental units in Canada is approximately 13 per cent. This ratio in the United States is nearly 10 per cent, computed on the basis of annual interest charges of $5,616 millions and gross revenues of $56,594 millions. The ratio between the annual interest charges and the national income ($9,186 millions for the calendar year 1944) for the Dominion is 3.8 per cent and for all governmental units in Canada 4.9 per cent. Comparable percentages in the United States are 3.2 per cent for the federal government and 3.5 per cent for all units of government, calculated on the basis of $160,000 millions of national income for the calendar year 1944.

During the six fiscal years ended March 31, 1945, the Dominion government expended approximately 43 per cent of the national income (total about $43.5 billions for 1939 through 1944), 35 per cent being applied to war purposes. To finance this expenditure it collected in revenues about 24 per cent of the national income and borrowed the equivalent of 19 per cent.[10] As compared with these ratios, the United States government expended during the five fiscal years ended June 30, 1945, approximately 50 per cent of the national income (total, roughly $645 billions from middle of 1940 to middle of 1945), about 43 per cent

[9] These sinking funds and other offsets for the Dominion were $4,413.8 millions on March 31, 1945; for the provinces, $187.6 millions in 1943, and for the municipalities, $267.0 millions in 1943. The provincial and municipal figures represent the latest available compilations at the time of this writing. See *Comparative Statistics of Public Finance*, 1943, Dominion-Provincial Conference on Reconstruction, 1945.

[10] See Table III in next chapter for revenues and borrowings.

being applied to war purposes. To finance this expenditure it collected in revenues about 21 per cent (or $133 billions) of the national income and borrowed the equivalent of 29 per cent (or $190 billions). It is apparent from these figures that the United States government expended a greater percentage of the national income during the rearmament and war period than did the Dominion government; at the same time, it collected a smaller percentage in taxes and other revenues and borrowed a greater percentage of the national income to finance this expenditure than did the Dominion government.

The growth of public debt in the United States has closely paralleled that of Canada. Before World War I, public debt, as such, constituted practically no problem in either country. During this war the federal debt of the United States rose to $26.5 billions and that of Canada to $3 billions, the latter figure resulting in a larger per capita burden for Canadians. The United States retired some $10.5 billions of its debt during the decade which followed the war, leaving about $16 billions of debt at the close of 1930. The Dominion likewise reduced its debt by about a half billion dollars during this period. But during the 1920's the state and local governments of the United States expanded their indebtedness at a rapid rate, approximately doubling it in ten years. The provincial and local governments of Canada did practically the same thing in this decade. Then came the great depression when the federal debts of both countries again expanded, while state and provincial debts increased only moderately and local debts scarcely at all. There was, however, this marked difference between the two countries. Between 1930 and September, 1939, the United States government increased its debt by over $24 billions, or more than 150 per cent. During the same period, that is, up to the time that Canada entered World War II, the Dominion debt was increased by approximately one billion dollars, or only about 40 per cent above the 1930 level. Canada was therefore moderating its debt situation as compared with that of the United States when World War II started in 1939.

Chapter IX

CANADA'S WARTIME FINANCE AND CONTROLS

IN 1939 Canadian officials recalled with great profit their country's experience during World War I. The dangers of price inflation were recognized from the day Canada entered World War II. In the first war budget (September 12, 1939), a fiscal and economic policy was laid down which was closely adhered to throughout the war. This policy was premised upon avoiding as far as possible the mistakes of 1914–18. The Dominion government did not again plan upon a short war, as it had in 1914. During the early months, while war production was getting under way, it permitted a mildly inflationary condition by withholding heavy taxation. But later on, when approximately full employment was reached, it stepped up tax rates to meet the war costs as far as practicable on a pay-as-you-go basis.

In brief, Canada's policy in financing World War II had a threefold aim: (1) to provide ample funds for equipping, provisioning, and transporting the Dominion's armed forces; (2) to raise these funds as far as possible by high taxes based upon ability to pay, thus distributing the physical hardships of war as equitably as possible and insuring that no person or business derived any undue benefit from the war; and (3) to aid and supplement the direct controls over prices, production, and materials by absorbing excess purchasing power and discouraging unnecessary spending. These objectives were attained through a careful balancing of taxation and borrowing. High taxation was applied to income and specialized commodities, while the Canadian public was encouraged to lend heavily to the Dominion government.

WARTIME POLICY AND TAXES

Canada's policy of war finance was announced by J. L. Ilsley, then Minister of National Revenue, in his budget speech of September 12, 1939, in these terms:

Because we believe it is the part of wisdom, we shall follow as far as may be practicable a pay-as-you-go policy. In imposing the new tax burdens which this policy will require we shall be guided by the belief that all our citizens will be ready to bear some share of the cost of the war, but we shall insist on the principle of equality of sacrifice on the basis of ability to pay. We shall not, of course, be able to meet all war costs by taxation, because . . . there is a limit to the taxes that can be imposed without producing inefficiency, a lack of enterprise and serious discontent. . . . We cannot carry taxes beyond the point where they seriously interfere with production. But we are not prepared to be timid or lighthearted in judging where this point lies. What we cannot meet by taxation, we shall finance by means of borrowings from the Canadian public at rates as low as possible.

This policy was reaffirmed in the second war budget speech of June 24, 1940, when the Minister of Finance, J. L. Ralston, said that events since the previous September "have not detracted from the wisdom of that policy but rather have reinforced the need for a vigorous effort to apply it in every possible way." In a speech to the House of Commons on November 21, 1940, a further refinement of this policy was set forth by Mr. Ilsley, speaking this time in the role of Minister of Finance. He said: [1]

The principles of our war finance policy have been stated before but will bear repetition. Briefly summarized these principles are:

1. That in real terms, that is to say in terms of the loss to the nation of the production required for war purposes, the war is paid for substantially while it is in progress.

2. That the limits of what we can devote to war purposes are not financial but, as previously stated in this house, are physical, mental and moral, that is to say, the physical limits of our resources and the mental and moral capacity of Canadians to bear burdens and make sacrifices.

3. That the task of finance is not only to provide the funds which are used to pay for the war services but more fundamentally is, by taxing and borrowing, to restrict the civilian demand for economic resources in order that they will be available to the defence or supply departments when required.

4. That in discharging this function, finance must keep in step with the defence and supply programme.

5. That for this purpose, taxation, as far as practicable, is a better method than borrowing because it is fairer and final.

6. That taxation should be imposed upon a basis of equality of sacrifice, having due regard to ability to pay.

7. That there are practical limits beyond which taxation cannot be carried, so that the government must also do some borrowing, which should be as far as possible out of voluntary public savings.

8. That the third method of war finance, namely, inflation, is the most unfair, the most uneconomical and the most dangerous of all methods of financing a war.

9. That in the early stages of the war, some expansion of credit is often possible without inflation.

[1] *House of Commons Debates,* Thursday, November 21, 1940, p. 311.

10. That later, as the resources of the country become fully employed, monetary or credit expansion necessarily brings about inflation unless offset by strict counter measures, such as severe taxation.

In his budget speech of April 29, 1941, presenting the third war budget, Mr. Ilsley emphasized the principles of war finance which he had previously stated, and added that in planning its policies the government set for itself two objectives: "First, to bring the country as rapidly as possible to the full use of its resources and manpower. For this, financial policy could not be the sole nor even the chief instrument, but it was necessary that it should help and not hinder, that it should keep step with the work of industrial and military organization. The government's second objective was to follow 'as far as may be practicable a pay-as-you-go policy.' This it derived not from any dogma of financial orthodoxy, whatever that may be, but from the known and proved inequalities and the disorganizing and shattering effects of inflationary rises in prices and incomes."

Canada's highly inflationary approach to financing World War I was condemned from the very beginning of World War II. The Dominion government determined not to permit the great increase of purchasing power arising out of the war boom to compete for the gradually decreasing amounts of consumers' goods available. Mr. Ilsley declared in his budget speech of June 23, 1942, that "price and income controls are essential weapons in combating inflation." But he continued, "They must be used, however, in close coordination with direct control of supplies and productive equipment, with direction and management of manpower, with consumer rationing, where necessary, and with fiscal policy. No one of these instruments is itself powerful and persuasive enough to do the whole job of directing our resources to the end desired."[2]

The over-all price ceiling and controls, established on December 1, 1941, were designed to insure adequate supplies of essential goods for civilians. These proved to be an important part of Canada's anti-inflation program. In spite of the fact that World War II absorbed between 40 and 50 per cent of the Dominion's energies as against less than 20 per cent in World War I, civilian supplies were better maintained and distributed. The cost of living in April, 1945, was up only 18 per cent above that of August, 1939, compared with an increase of 74 per cent in the period from 1914 to 1919. After the establishment of the over-all price ceiling, food prices increased only about 6 per cent, rent less than 1 per cent, and clothing less than 2 per cent. House furnishings remained substantially the same, and fuel and light were less expensive than before the ceiling was imposed.

[2] *Ibid.*, Tuesday, June 23, 1942, p. 3887.

Heavy War Taxes Imposed

The Dominion government's policy with respect to imposing heavier war taxes was not definitely launched until the presentation of the second war budget. Canada became involved in World War II when the Dominion was about midway in its fiscal year. The first war budget of September 12, 1939, provided simply for increased appropriations of $100,000,000 for war expenditures, and a few added taxes for the remainder of the fiscal year which ended on March 31, 1940. An excess profits tax of 50 per cent on corporations was enacted, and the regular corporation tax was raised from 15 to 18 per cent. The income tax, both personal and corporate, was raised by a 20 per cent surtax. Taxes and customs duties on liquors, wines, tobacco, tea, and coffee were increased. The total yield of these taxes for the fiscal year then current was about $21,000,000; the deficit for that year was $119,000,000, or almost exactly the war costs for the period.

The second war budget of June 24, 1940, emphasized direct taxation as a means of distributing the war burdens as much as possible according to ability to pay. The graduated rates of the personal income tax were raised and the exemption limits were lowered. In addition, a national defense tax of 2 and 3 per cent was imposed, to be collected at the source by employers, on the total income of all single persons earning more than $600 and all married persons earning more than $1,200 annually. Married persons paid 2 per cent and likewise single persons earning up to $1,200, while single persons earning over $1,200 paid 3 per cent. The excess profits tax on corporations was extensively revised, the tax rate being raised to 75 per cent of excess profits with the proviso that the minimum tax payable would be 12 per cent of the total profits in the taxable year. Taxes on automobiles and smokers' supplies were again raised substantially. New taxes were imposed on radios, radio tubes, cameras, and phonographs; later (December, 1940) on electrical and gas appliances, and on slot and vending machines. A war exchange tax of 10 per cent was imposed on all non-British imports to conserve exchange. The Minister of Finance estimated that these new taxes and tax revisions would produce an increase of $280,000,000 in tax revenue for a full year.

The third war budget of April 29, 1941, again made sharp increases in the personal income tax. The national defense tax was increased from 2 and 3 per cent to 5 and 7 per cent, with the exemption of single persons being raised from $600 to $660. Personal exemptions under the individual income tax, which were reduced the previous year from $1,000 to $750 for single persons and from $2,000 to $1,500 for married persons,

were left unchanged. The rates, however, were sharply increased, reaching 15 per cent on the first \$1,000 of taxable income and going up 5 per cent on each additional \$1,000 in the lower brackets. The tax on interest and dividends going abroad was increased from 5 to 15 per cent. The minimum rate of tax payable on the excess profits of corporations was increased from 12 to 22 per cent. A Dominion inheritance (succession) tax was imposed for the first time; previously this field had been left exclusively to the provinces. Sharp increases in rates and heavy new taxes were also introduced in the field of indirect taxation. These included a 10 per cent tax on railway, bus, and airplane tickets, a 20 per cent tax on the receipts of movie theaters, a 25 per cent tax on cosmetics, a 15-cent tax on each pack of playing cards, and a 3-cents-a-gallon tax on gasoline.[3] This was the first time the Dominion had levied a gasoline tax, although the provinces already had imposed gasoline taxes averaging about 8 cents per gallon. The rate of the general sales tax, levied by the Dominion for several years, was left unchanged at 8 per cent, but building materials, formerly exempted, were included in the list of taxed articles.

An important feature of the third war budget was the offer to compensate the provinces if they would agree to vacate the personal income and corporation tax fields for the duration of the war. Mr. Ilsley explained in his budget speech that, if this were done, it would enable the Dominion government to levy the high income taxes required by the war without injustice to the persons or concerns subject to varying provincial rates. He proposed that the Dominion would reimburse each province either by guaranteeing payment of (1) an amount equal to the collections made from such taxes by the province and its municipalities during the fiscal year ended nearest to December 31, 1940, or (2) an amount equal to the net debt service actually paid by the province during the fiscal year ended nearest to December 31, 1940, less the revenue obtained from the provincial succession taxes during that period. By the early part of May, 1942, each of the nine provinces had accepted one or the other alternative and passed the necessary legislation to make the agreement effective.[4]

The burdensome cost of Canada's part in the war was fully reflected in the fourth war budget brought down in the House of Commons on June 23, 1942. The tax changes followed the pattern set by previous budgets, emphasizing direct taxation of persons and corporations through the income and excess profits taxes. Some existing taxes on commodities

[3] Equivalent to 2.5 cents on an American gallon, since the Canadian or Imperial gallon is one-fifth larger.

[4] See below, pp. 230–34.

and services were increased, and some new taxes were introduced, but these were relatively unimportant from the revenue standpoint. Several important changes were made in the personal income tax. The national defense tax lost its identity, being incorporated into the general income tax as a flat-rate "normal" tax, but at higher rates than were previously applied. The graduated rates of tax were steeply increased, and the credit for dependents was changed from a deduction from income to a deduction from tax. It was provided that part of the total tax would be in the form of compulsory savings to be refunded (plus 2 per cent interest) after the war, although the taxpayer was required to pay this part only to the extent not offset by savings in other forms, such as life insurance premiums, principal payments on a residential mortgage, and contributions to a pension or superannuation fund.[5] A "pay-as-you-earn" plan was introduced for deduction of income tax at the source from all salaries and wages paid after September 1, 1942, and for compulsory payments of income tax on a quarterly installment basis in the case of other forms of income. The adoption of this plan by Canada preceded by several months the application of a similar plan by the United States. The rates of the excess profits tax were considerably increased with the result that corporations having profits in excess of 116⅔ per cent of their standard profits (average 1936–39) paid a tax at the rate of 100 per cent, and no corporation was allowed to retain, after tax, profits equal to more than 70 per cent of its standard profits. But provision was made for a 20 per cent refund after the war for corporations to which the 100 per cent rate of tax applied. Payment of corporate income and excess profits tax on a monthly installment plan paralleled the plan of deduction at the source for individuals.

Additional revenue was found in the field of indirect taxation by raising existing taxes on spirits, tobacco products, soft drinks, passenger transportation, communications, and miscellaneous articles and services. Some new taxes were introduced at the manufacturer's level, the normal point of levying sales and excise taxes under the Dominion tax law. These included taxes on candy, chewing gum, photographic supplies, luggage, fountain pens and pencils, and pipes and other smokers' accessories. A new departure was made with the introduction of taxes to be collected by stamps at the retail level on a list of luxury articles, including jewelry, cut glass and crystal ware, clocks and watches, chinaware other

[5] The refundable portion was equivalent to about half of the total tax for single persons up to incomes of $1,000 and became a flat amount of $800 out of a total tax of $5,100 at an income of $10,000. For married persons with dependents, the refundable portion was somewhat larger, reaching a maximum of $1,200 at income of $10,000. This schedule gave the Dominion an income tax that compared in the weight of its immediate impact with that of Great Britain.

than that used in serving food and drink, and articles made wholly or in part of certain materials. Another innovation was a tax collected directly on expenditures made by patrons of certain cabarets and dance halls.

The fifth war budget of March 2, 1943, provided for increased revenues and expenditures over those of any previous budget and adjusted the "pay-as-you-earn" plan so as to put the payment of income taxes on a strictly current basis. The tax changes introduced by this budget were quite limited. The tax rates on tobacco and tobacco products were raised; the duty on beverage spirits and the tax on cabarets and night clubs were increased, and an additional one cent was put on letter rate postage. No changes were made in the general rates or exemptions under the income tax. The basis of taxing the oil industry, however, was substantially altered in order to encourage new development and production. Special income tax allowances to members of the armed forces were amended to provide further relief.

Under the plan of income tax payment inaugurated by the 1942 budget, tax deductions were made at the source from salaries and wages, but these deductions did not relate to the current income. The taxpayer continued to pay on income of an earlier period, and was never abreast with his payments to the government on current income. If he sustained a reduction in income, then he had to pay tax on this former higher income. To remedy this situation and to bring the taxpayer up to date a 50 per cent cancellation of the 1942 tax liability was allowed on earned income and on investment income up to $3,000. It appeared that, owing to the national defense tax deduction for the first eight months of 1942 and to the much larger income tax deduction under the 90 per cent plan during the last four months of 1942, the majority of taxpayers had already paid at least 50 per cent of their 1942 tax liability. For those taxpayers the 50 per cent cancellation wiped out completely their tax arrears for 1942 and brought them up to date in their payments. The 1943 deductions were therefore made from current earnings to meet current taxes. Each taxpayer, however, continued to file an annual return (for 1943 income on or before April 30, 1944) in which he took account of the deductions made from his earnings during the year and computed his tax liability, if any, at the end of the year.

The sixth and final war budget was brought down in the House of Commons on June 26, 1944.[6] Its proposals were regarded as being largely of an incentive character so far as tax changes were concerned. The savings tax (or refundable feature) was removed from personal income

[6] The following budget was brought down on October 12, 1945, after both V-E and V-J Days, although the fiscal year to which this budget applied was then more than half gone.

taxes, since it was thought to be discouraging overtime work and unduly complicating income tax administration. Some changes were made in corporation taxes designed to assist industry in making the transition to peacetime conditions. But there was no general relaxation of the severe burden of wartime taxation.

A résumé of the Dominion government's wartime tax policy stressed the fact that primary emphasis was placed on direct taxation and that an effort was made to meet as much as 50 per cent of the total annual expenditure requirements from current revenues. The taxation of personal incomes was recognized as being the most equitable type of taxation, since it takes into account the ability to pay as indicated by the amount of income and the family responsibilities of the taxpayer. The taxation of corporate incomes, both through the excess profits tax and the normal corporation income tax, was also desirable in order to make sure that no abnormal or unreasonable profits would be derived from production for the war effort. This meant a rapid increase in the level of direct taxation as the war effort and the national income expanded, but always with due regard for the preservation of private initiative and the need for building up individual savings. The income tax was increased by 20 per cent in 1939 and then quickly raised by three successive steps to the full war level established by the budget of 1942. The increase to this high level of income taxation, with provision for refundable taxes, was made possible by the withdrawal of the provincial governments from the income tax field under the agreements of 1941. In 1943, without increasing the general level of personal income tax, the "pay-as-you-earn" system was fully applied and collections were put on a current basis. In the course of these changes, by advancing the dates of payment the government was able to augment its revenue quite substantially. The excess profits tax, enacted in the autumn of 1939, was increased to a rate of 100 per cent in 1942, of which 20 per cent was to be refunded. Inheritance taxes or succession duties were first imposed by the Dominion government in 1941. The rates were formulated in the light of the existing provincial rates, and when taken in combination with the latter resulted in a total tax of about the same severity as the British death duties. In 1940 and 1941 new and increased commodity taxes were imposed for exchange reasons, as well as for revenue, and also to encourage transfer to war production. After 1942 the main increases were in indirect taxes applying to commodities and services which were not regarded as necessaries of life and the purchase of which gave some indication of ability to pay. But the full wartime level of taxation in the Dominion was practically reached by the middle of the war period. This level was enormously high when judged by previous Canadian standards. Nevertheless, it was by no means

TABLE III. DOMINION WARTIME REVENUES AND EXPENDITURES
(By fiscal years ended on March 31—Dollars in millions)

	1939–40	1940–41	1941–42	1942–43	1943–44	1944–45	Total
REVENUES:							
Direct taxes:							
Personal income tax	$ 45	$ 103	$ 296	$ 484	$ 698	$ 768	$ 2,394
Corporation income tax	78	132	186	348	311	276	1,331
Excess profits tax	—	24	135	434	429	466	1,488
Succession duties	—	—	7	13	15	17	52
Other	11	13	28	28	28	28	136
Total direct taxes	134	272	652	1,307	1,481	1,555	5,401
Indirect taxes:							
Customs duties	104	131	142	119	168	115	779
Excise duties	61	89	110	139	142	152	693
Excise taxes	166	284	453	489	639	544	2,575
Other	3	2	4	12	7	8	36
Total indirect taxes	334	506	709	759	956	819	4,083
Total taxes	468	778	1,361	2,066	2,437	2,374	9,484
Other revenues	94	87	122	174	328	313	1,118
Total revenues	562	865	1,483	2,240	2,765	2,687	10,602
EXPENDITURES:							
War expenditures	118	752	1,340	3,724	4,587	4,418	14,939
Nonwar expenditures	563	490	540	653	735	827	3,808
Total expenditures	681	1,242	1,880	4,377	5,322	5,245	18,747
Over-all deficit	119	377	397	2,137	2,557	2,558	8,145
Total revenues to total expenditures	82%	69%	78%	51%	52%	51%	56%
Financial assistance to Great Britain [1]	104	361	1,053	—	—	—	1,518

[1] During the first three years financial assistance was provided to Great Britain outside the budget as it involved investment or debt redemption rather than expenditures; in 1942–43 it was provided for in the budget to the extent of $1,000,000,000 and included in war costs. In 1943–44 and 1944–45 expenditures of $913,000,000 and $803,000,000, respectively, were made under the Mutual Aid Act to provide United Nations war equipment, war materials, and food.

the highest level among comparable countries—the Australian and New Zealand levels were both much higher. Generally speaking, the combined rates of tax and savings levied in Canada on nearly all incomes up to $2,000 were higher than the pure tax rates payable to the federal government in the United States, but they were at no point as high as the combined tax and compulsory savings rates payable in Great Britain.[7] As a result of applying such heavy taxation, the Dominion government was able, after meeting all other expenditures in full, to cover about 45 per cent of its expenditures resulting from war by current revenues. This is a much better showing than the United States was able to make; indeed, only about 37 per cent of American expenditures for war were met out of current revenues after deduction for other expenditures.

Wartime Revenues and Expenditures

The total tax revenues of the Dominion government for the six-year period of World War II, as shown on the accompanying Table III, were $9,484 millions, while other revenues brought the grand total up to $10,602 millions. This total amount was about seven times the revenues collected during World War I and its subsequent demobilization period. At the outbreak of World War II approximately two dollars out of every three of tax revenue came from indirect taxes and one dollar from direct taxes. In the fiscal year ended March 31, 1945, this ratio was practically reversed, thus indicating the greatly increased reliance placed on direct taxation in financing the war.

The most striking changes in the tax structure occurred in the personal income tax. Both the rates and the scope of this tax were greatly increased. The number of income taxpayers was increased more than eightfold during the war. About 2,100,000 individuals, or more than one-sixth of the entire Canadian population, paid this tax in 1944. Whereas before the war an individual's tax bill was paid in one lump sum after the end of the year, under the "pay-as-you-earn" system inaugurated during the war, tax was withheld from salaries and wages as earned during the year to the extent that a balance of only about 5 per cent was left to be paid at the time of filing the annual return. The spreading of the payments in

[7] Budget Speech, in *House of Commons Debates,* June 26, 1944, pp. 4297–4300. The Canadian rates were heavier than the United States rates, particularly in the lower (but not the lowest) and middle income brackets, which include by far the greatest aggregate spending power. Thus, for a married person with two dependents with an income of $2,000, the United States tax was $58, the Canadian tax (in U. S. dollars) was $275, of which $138 was refundable. At $5,000 the United States tax was $754, whereas the Canadian tax was $1,747, of which $600 was refundable. At $10,000 the United States tax was $2,333, as compared with the Canadian tax of $4,700, of which $1,091 was refundable, and with a British tax of $4,300, of which $260 was refundable.

this way worked to the advantage of both the government and the taxpayer. A part of the tax payable in 1942, 1943, and 1944 was designated as savings to be repaid to the taxpayer after the war. This refundable part was estimated on March 31, 1945, at about $260 millions.

Under a wartime amendment to the income tax provisions Canadian corporations paid a tax of 18 per cent on profits. In addition, under the Excess Profits Tax Act, they paid 12 per cent of their total profits plus either an additional 10 per cent of total profits or 100 per cent of excess profits, whichever was the greater. Excess profits generally were measured by the average of profits earned in the four years 1936 to 1939, inclusive, which was known as the "standard" profit of the corporation concerned. The general effect of this combination of income and excess profits taxes was that every corporation paid a tax of at least 40 per cent of its profits. No corporation, no matter how much its profits had increased, could retain more than 70 per cent of its prewar "standard" profits. Prior to the war, corporations were taxed at a flat rate of 15 per cent on all profits. However, provisions were made under the excess profits tax whereby any corporation subject to the 100 per cent rate would receive after the war a refund of 20 per cent of the amount by which its profits exceeded 116⅔ per cent of standard profits in any year. In the aggregate this refund was estimated on March 31, 1945, at about $185 millions.

There were substantial increases in many of the prewar consumption taxes, with several new taxes added. A notable exception, however, was the sales tax, which remained throughout the war period at its peacetime rate of 8 per cent. The consumption taxes, old and new, totaled about sixty items. Some of these taxes were stable sources of revenue before the war while others were imposed during the war either to assist in conserving materials and labor or to share in the increased expenditures for luxuries due to augmented national income. Some of the more striking increases were on liquor and tobacco. Liquor, taxed at $4 per gallon before the war, reached $11 per gallon, or nearly three times as high. The tax on beer was also tripled. The tax on cigarettes rose from one-fourth of a cent on each cigarette before the war to one cent each. The prewar tax of 20 cents a pound on pipe tobacco was raised to 67 cents a pound. In addition to these specified taxes, all liquor and tobacco was subject to the 8 per cent sales tax. New consumption taxes, ranging from 15 to 35 per cent, were imposed on such articles as chewing gum, cameras, radios, phonographs, clocks, watches, jewelry, luggage, toilet soaps, and travel tickets. A 10 per cent war exchange tax was levied on imports into Canada from dollar countries, intended to conserve United States dollars by reducing imports from that country. This tax produced a revenue of from $75 to $100 millions a year.

War Expenditures

The war expenditures of the Dominion government rose rapidly during the six-year period of World War II until they reached a level of approximately four and a half billion dollars during the last two full years. The total war expenditures for the six fiscal years up to March 31, 1945, amounted to nearly $15,000 millions, or about nine times the total war and demobilization costs of World War I. Other governmental expenditures, including interest on the Dominion debt, amounted to $3,808 millions during the same period, making a grand total of $18,747 millions. If all the financial assistance to Great Britain were added to the latter figure, the grand total would be $20,265 millions; however, a large measure of this assistance assumed the form of repurchasing Canadian securities held in Britain.

Financial assistance to Great Britain and obligations under the Mutual Aid Act amounted to about four and a quarter billion dollars on the part of the Dominion government up to March 31, 1945. During the first three years of the war the flow of Canadian war supplies to the Allies was assured by providing Great Britain with the Canadian dollars needed to buy these supplies. In this way the countries of the British Commonwealth, and also Soviet Russia, received through Britain substantial amounts of Canadian war supplies. Several methods were used in extending financial aid to Britain, which in the aggregate amounted to about $2,700 millions.[8] About $800 millions were provided by buying back or "repatriating" British-held Canadian securities (private, Canadian government, and Canadian National Railways securities). The major part of the accumulated sterling balances in London, amounting to $700 millions, was consolidated into a loan to Great Britain, interest free for the duration of the war. A contribution of $1,000 millions was placed to the credit of Britain in Canada for the purchase of Canadian war supplies. In addition, the Dominion government assumed ownership of British interests in Canadian war plants amounting to about $200 millions. During the early years of the war, the British government had provided capital for the construction and equipment of many factories in Canada to produce munitions for the British forces.

[8] During the early part of 1946, the Dominion government extended a postwar credit to Great Britain in the form of a trade loan amounting to $1,250 millions. The loan is to be used to enable Britain to make purchases in Canada and to meet deficits arising from trade with other countries. It is intended to help to restore British economy and revive international trade. The loan is interest free until 1951, when it will draw 2 per cent on the unpaid balance and will be repayable in 50 annual installments. Provisions are made for accelerated repayment under prosperous trade conditions, and for waiving interest charges during years when Britain is short of international exchange.

The Mutual Aid Act was passed at Ottawa on May 20, 1943. Under it Canada provided Great Britain and other nations with the actual war supplies they needed over and above their capacity to pay. Thus Canadian planes, tanks, ships, wheat, bacon, and lumber were made available in the common cause just as were the services of the Canadian army, navy, and air force. In the two fiscal years ended March 31, 1945, total expenditures under the Mutual Aid Act amounted to $1,716 millions. The countries with which Canada had Mutual Aid agreements—Great Britain, Soviet Russia, China, France, Australia, New Zealand, and India—presented their requests for aid directly to the Dominion government, and it turned over the supplies directly to them. The Dominion government had funds to pay for Canadian requirements in the countries receiving Mutual Aid, and therefore the reciprocal aid clause was not used. The United States needed no help from Canada under Mutual Aid; and Canada received no assistance from the United States under Lend Lease.

Borrowing to Finance the War

The large sums needed to finance the war over and above the amounts currently raised from revenues were borrowed mainly from the Canadian public. From September 1, 1939, to March 31, 1945, the Canadian public provided $8,942 millions out of a total of $11,259 millions of the "new money" raised (that is, excluding the conversion or renewal of previous issues), or 79.4 per cent.[9] The Bank of Canada and the chartered banks provided the remainder. No money was borrowed outside of Canada during this period; indeed, as already noted, the Dominion was able, in addition to meeting its own requirements, to furnish considerable aid to Great Britain and the Mutual Aid countries.

It was the deliberate policy of the Dominion government to borrow internally in financing World War II, and to borrow largely from the general public (that is, from individuals and corporations), thus avoiding the inflationary tendencies of excessive borrowing from commercial banks. Besides, a comprehensive savings program for the public also resulted in a reduction of private expenditure which relieved what would otherwise have been an intolerable pressure on the direct measures of control, particularly the control of prices. The organization of the wartime savings program took the form of nation-wide Victory Loan campaigns, starting in January, 1940, when the first war loan was offered to the Canadian people. By May, 1945, there had been ten public bond campaigns—two war loans and eight so-called Victory loans. The wide-

[9] This percentage does not take into account the resales by original purchasers, usually to banks but sometimes to government accounts. However, the rate of resales was apparently not as high as in the United States.

spread response to this feature of the savings program was indicated by the fact that there were more than 3,000,000 applications in each of the last four loans as compared with 178,363 in the first loan. Individual purchases of bonds rose in increasing amounts from $132 millions in the first loan to $836.3 millions in the tenth loan. A complementary part of the savings program, designed to provide an easy way of making small and frequent savings, was the sale of war savings certificates and stamps, inaugurated on May 27, 1940. War savings certificates were issued in amounts that ranged from $5 face value up to $500. They were sold for four-fifths of their face value, maturing in 7½ years from the date of issue and yielding a 3 per cent rate of interest compounded semiannually. War savings stamps were sold at 25 cents each and could be turned in on certificates when an amount equivalent to the purchase price of a certificate had been accumulated. Up to January 1, 1945, $317.6 millions of war savings certificates and $50 millions of war savings stamps had been purchased.

In keeping with its announced policy, the Dominion government began in a mild "expansionist" way to finance the war deficits. On October 16, 1939, it sold to the chartered banks of Canada $200 millions of short-term securities, running for two years at 2 per cent. The proceeds were used in part to redeem Dominion registered stock outstanding in London to the amount of $125 millions, in connection with which there was a sinking fund of about $35 millions. This operation made Canadian dollars available to Britain for the purchase of supplies in Canada. The remaining part was used to retire domestic maturities of about $28 millions falling due before the end of the year, and for general purposes of the government.

Early in 1940, the pool of public savings was judged sufficiently large to be tapped, so the government sold its first war loan, dated February 1. This loan of $250 millions carried an interest rate of 3¼ per cent and matured in 8 to 12 years. Fifty millions of the loan were used for conversions, and the remaining $200 millions supplied cash for the Treasury. To provide additional funds for conversions, an issue of $40 millions of five-year 2 per cent notes was sold to the Bank of Canada at 99.375. On May 1, 1940, $250 millions of one-year 1 per cent notes were also sold to the Bank of Canada. At the same time the Bank purchased $75 millions of treasury bills at .739. A month later, the Bank again bought $24 millions of five-year notes bearing 2 per cent interest at 99.375. An additional $40 millions of this same issue were sold at the same price to the chartered banks of Canada. At the end of May, 1940, war savings certificates and stamps were placed on sale to attract individual savings, the campaign being directed by a war savings committee.

During September, 1940, a second war loan of $325 millions was sold to the public. The bonds of this loan ran for twelve years at 3 per cent interest, and sold for 98.75 to yield 3⅛ per cent. On January 2, 1941, the Government asked the chartered banks for another short-term loan. Notes for $250 millions were sold to the banks, running for two and a half years and bearing 1½ per cent interest.

In June, 1941, the Canadian public was asked to buy a third war loan, known this time as the first Victory Loan. The goal was set at $600 millions and $730 millions of bonds were sold. Other Victory Loans followed at the rate of two a year, beginning in February, 1942, and extending for the duration of the war, the eighth Victory Loan being sold in April, 1945. The amount of bonds bought by the public rose with each issue sold until it reached $1,569 millions in the eighth Victory Loan. At first corporations bought more bonds than individuals, but this trend was reversed after the sixth Victory Loan. A ninth Victory Loan to pay for demobilization was sold to the public in October and November, 1945, the goal being set at $1,500 millions, which was largely oversubscribed.[10] On the whole, Canada seemed more successful than the United States in selling war bonds outside of the banking system, and in keeping them there.

The bonds sold to the Canadian public during the Victory Loan campaigns consisted of intermediate-term bonds (three to six years) bearing 1½ to 2¼ per cent, and long-term bonds (eight to twenty years) carrying 3 to 3¼ per cent interest. An effort was made to whittle down the interest rates with each successive issue of bonds. Public borrowing was started in January, 1940, with an issue of 3¼ per cent bonds having an average maturity of ten years. In the ninth Victory Loan of October, 1945, a long-term bond issue of twenty years and ten months was sold at 3 per cent. This indicates that a ten-year bond, such as was issued at 3¼ per cent in January, 1940, could have been sold in October, 1945, at 2⅗ per cent. The average rate of interest on the funded debt had dropped from 3.52 per cent on March 31, 1939, to 2.51 per cent on March 31, 1945.

The success of the public bond campaigns was largely due to the efforts of the National War Finance Committee, set up by the Minister of Finance in January, 1942, just before the second Victory Loan. This committee was a final step in the unification of the government sales organization; it absorbed the functions and many of the personnel of the former war savings and Victory Loan committees. The membership of the committee, some sixty persons in all, represented the major industries, agriculture, labor, commerce, finance, and women's organiza-

[10] The total subscriptions to this loan amounted to $2,025 millions and numbered 2,947,636.

tions. Local committees were set up in each province to assist the central committee. A national management committee consisted of the administrators in the central office of the committee, together with the chairmen of the provincial committees. A full-time staff of about 400 persons was assisted by some 125,000 temporary workers, many of whom were salesmen selling on a commission basis, and about 2,000 investment dealers and brokers.

Monetary and Economic Controls

During World War II control over the Canadian monetary system was exercised principally by two agencies: the Bank of Canada [11] and the Foreign Exchange Control Board. Not only were these two agencies closely associated in this work, but they were both under the general direction of the Minister of Finance, who served as their spokesman on the floor of the House of Commons. The Governor and the Deputy Governor of the Bank acted as the chairman and alternate chairman of the board. The other members of the board included the Deputy Minister of Finance, the Deputy Minister of National Revenue for Customs and Excise, the Under Secretary of State for External Affairs, and two other key members of the permanent administrative services.

The Foreign Exchange Control Board was mainly the instrument for carrying out the government's policy with respect to all matters relating to foreign exchange, just as the Bank of Canada was the agency through which the "easy money" policy of the government was promoted by keeping down interest rates on current borrowings. The board had broad powers which enabled it to stabilize exchange rates and to restrict the outflow of capital from Canada.

Owing to the threatened war in Europe, the Canadian dollar depreciated in terms of United States currency during the last days of August, 1939, until the premium on American funds had risen to about 11 per cent by the time exchange control was introduced in Canada. After September, 1939, the board maintained the official premium on the United States dollar at 10 per cent for buying and 11 per cent for selling, equivalent to a discount rate on the Canadian dollar in the United States of around 9½ per cent. At the same time the British pound sterling was set at a discount of roughly 10 per cent in relation to its traditional parity, or $4.43 for buying and $4.47 for selling in Canadian dollars. The Canadian dollar was therefore stabilized in a position about midway between the two major currencies.[12] During the early months

[11] For a description of the Bank of Canada and its functions, see above, Chapter II, pp. 42–45.

[12] A. F. W. Plumptre, *Mobilizing Canada's Resources for War* (1941), p. 187.

of exchange control, there seems to have been a supply of unofficial Canadian dollars in the United States which was used to depress the market rate of the Canadian dollar to as low as 78 cents, but as soon as that supply had dried up the market rate rebounded and kept close to the official rate.

The Foreign Exchange Control Board was instrumental in accumulating sterling exchange to provide the British government with Canadian dollars to finance British purchases in Canada.[13] In the summer of 1940 it registered all Canadian-held securities in the United States, took over Canadian-owned American dollar balances, forbade pleasure travel in the United States, and, under the Foreign Exchange Conservation Act (December, 1940), prohibited certain types of imports. This action resulted in largely cutting off consumers' imports from the United States, thereby freeing exchange for the purchase of war goods and machinery. The exchange shortage was also relieved in part by the Hyde Park Agreement of April, 1941, in accordance with which the United States provided Britain, under the Lend Lease Act, with many American components of war supplies to be manufactured in Canada for Britain; also, the United States bought from Canada certain essential war materials and supplies which could be easily produced in the Dominion.

Control of Prices and Wages

The Dominion government decided to impose controls over civilian supplies and prices at the very outset of World War II. The Wartime Prices and Trade Board was set up for this purpose on September 3, 1939. The board was composed of senior administrative officers, its chairman being the chairman of the Tariff Board. In August, 1941, the board was made responsible to the Minister of Finance, whereas it had previously been under the Minister of Labour. It then became one of the main instruments employed by the Minister of Finance in his efforts to eliminate general inflationary developments. This is probably the reason why the board, as reconstituted, was given the power to regulate all prices, including those under the jurisdiction of other wartime agencies and also those which had previously been regulated by provincial or municipal organizations.

During the first two years of World War II, the board followed a policy of selected controls and of special provisions for civilian supplies. Price control during this period applied only to sugar, butter, and wool and, in 1940, was extended to rentals. The prices of certain commodities, mainly products of agriculture and fishing, were allowed to rise to a

[13] See above, p. 197.

more favorable relation to other prices. Between August 1, 1939, and April 1, 1941, the cost-of-living index showed a rise of 7.7 points, or somewhat less than two-fifths of a point per month. This was considered a comparatively moderate rise in prices. In the next seven months, however, the index rose as much as it had risen in the previous twenty months and by November 1, 1941, it stood at 115.4. During October, 1941, the Dominion government decided to adopt an over-all price ceiling (Canada thus became the first of the Allied democracies to do so). This ceiling went into effect on December 1, 1941, at which time it became unlawful to sell any goods or services at a higher price than the maximum one which prevailed during the "basic period"—that is, from September 15 to October 11, 1941.

While the Wartime Prices and Trade Board was given wide powers of price control, the ceiling was somewhat limited. It covered the prices of all commodities with certain specific exemptions, all rentals, and a specified list of services. The commodities specifically exempted from the ceiling were those sold for export or for use as war supplies, and goods sold at auction and in isolated transactions. The services which were specifically brought under the ceiling included nearly all types of public utilities, warehousing and storage, undertaking and embalming, laundering, plumbing, hairdressing, decorating, repairing of all kinds, exhibiting motion pictures, and supplying meals and beverages.

Pressures which threatened to upset the stability of prices arose from increased ocean freight rates and war risk insurance due to the submarine menace, shortage of metals and materials, increased land transportation costs, higher operating costs because of the loss of skilled and experienced workers, and the early upward adjustments of wages in many industries. To prevent these pressures from disrupting the price ceiling the Wartime Prices and Trade Board resorted to the reduction of costs where possible by modifying or remitting the payment of import duties; the adoption of simplification, standardization, and other measures to effect cost economies; the division of increased costs among wholesalers, retailers, and distributors; the payment of subsidies; and government bulk purchasing. Through the use of these measures it was possible to hold down the retail prices of essential goods to those of the basic period without undue hardship to any one group. In the case of new types of goods the board set a maximum price based on a comparison of similar or related goods sold during the basic period. In addition it endeavored to maintain a check on the quality and serviceability of goods sold under the ceiling price. To stimulate public cooperation the board set up, through its consumer branch, more than 100 women's regional advisory committees scattered all the way across Canada. At-

tached to these were subcommittees composed of some 16,000 voluntary representatives of women's organizations. These women assumed responsibility for watching retail prices in their own communities and for reporting any infractions of price control regulations.

The Wartime Prices and Trade Board also assumed responsibility for maintaining essential civilian supplies under the price ceiling. This involved arrangements to obtain necessary imports, allocation of productive resources among military, civilian, and export requirements, distribution of scarce materials among manufacturers, and other measures designed to meet essential needs first. In some cases the board went so far as to require manufacturers to produce certain goods in designated quantities, as for example various textiles. In order to carry out these arrangements it was necessary for the board to coordinate its work with that of the Wartime Industries Control Board of the Department of Munitions and Supply, which exercised control over the production and distribution of certain basic materials and services needed in war production. The Wartime Prices and Trade Board also maintained offices at Washington and London, where it negotiated with the United States War Production Board and the British Board of Trade to obtain supplies required by the Canadian civilian economy. It sometimes made bulk purchases through one of its associated companies—the Commodity Prices Stabilization Corporation, the Canadian Wool Board, or the Wartime Food Corporation.

Subsidies were paid on both domestic and imported goods where necessary to maintain the price ceiling, or where, in some cases, it was desirable to increase the supply of essential goods for sale. Among domestic products which were subsidized by the Commodity Prices Stabilization Corporation were canned goods, tree fruits for canning, certain groceries, glove and garment leather and footwear leather, oils and fats for soap and shortening, fertilizers, woodenware, lumber, and fuel wood. The extra cost of diverting goods from regions of comparative surplus to areas of scarcity was met by subsidy. Milk was subsidized to offset the reduction in price to consumers effected late in 1942. Subsidy payments were also made by the Department of Agriculture on a number of agricultural products to maintain or stimulate increased production of essential foods. Under careful restrictions and safeguards, import subsidies were paid on consumer goods, such as petroleum products, raw cotton, cotton fabrics, coal, and food items.

Coupon rationing was instituted in 1942 for sugar, tea, coffee, butter, and gasoline. The following year meats and preserves were added to the ration list, and a priority plan was set up which made use of ration cou-

pons for the distribution of evaporated milk.[14] Rationing of meats was suspended for a time after March, 1944, and tea and coffee were taken off the ration list in September, 1944. Sugar and butter were first rationed at a half-pound per person per week; by 1944 the butter ration was lowered to six ounces per week and the sugar ration to seven pounds per year. An additional ten pounds of sugar per person was allowed annually for canning. Tea was rationed at the rate of one ounce per week and coffee at four ounces per week. This amount was increased twice before the suspension of rationing on these articles. The meat ration varied from one to two and a half pounds per week according to the cut. The coupon value of preserves varied according to the commodity, or from twelve ounces of jam, jelly, or marmalade to 40 ounces of molasses. Gasoline rationing (under the control of the Department of Munitions and Supply) was set at 120 gallons a year to nonessential users, against 96 gallons in the United States, with additional amounts to users who had priorities.[15] Permit rationing was employed in the case of some commodities, mostly durable goods, which were essential to certain consumer groups. Goods which were scarce but not rationed were allocated by wholesalers to merchants according to the equitable distribution policy set up by the Wartime Prices and Trade Board.

A new wage policy which had been in the making for several months was put into effect along with the price ceiling under the Wartime Wages and Cost of Living Bonus Order of October 24, 1941. Wage rates were stabilized as of November 15, 1941, with provision for raising the rates which were unduly low, and changes in the cost of living were thereafter met by a flat-rate cost-of-living bonus. The order was administered by the National War Labour Board established for the purpose, which was assisted by nine regional war labor boards, one in each province. Each board consisted of an independent chairman (the Dominion Minister of Labour for the National Board and usually the provincial ministers of labor for the regional boards) and an equal number of employer and employee representatives. The stabilization of wages was supplemented by the stabilization of salaries under the Wartime Salaries Order of November 27, 1941.

All wage rates up to $175 a month, and in some instances up to $250 a month, were brought under the new wage policy. Persons receiving more than $250 a month, and sometimes those getting between $175 and

[14] Liquor and other alcoholic beverages, though not rationed by the Dominion government, were rationed in all the provinces by the provincial liquor control boards.

[15] Since the United States gallon is only 5/6 of the Imperial or Canadian gallon, the difference is actually more than appears from the figures. The Canadians really got the equivalent of 144 U. S. gallons.

$250 a month, were placed under the salary regulations. The wage rates in general were frozen, though not the earnings of the individual workers, who could still increase their earnings by overtime. Workers could also climb up the wage scale either by promotion or by changing employers. The cost-of-living bonus allowed each worker earning $25 a week or more was 25 cents a week in addition to his wages for every point of increase in the cost-of-living index; each worker receiving less than $25 a week was paid 1 per cent of his weekly wage as a cost-of-living bonus. The salary earner as a rule had his existing salary frozen for the duration of the war, and was therefore in a less fortunate position than the wage earner.[16] He could increase his earnings if he changed his employment (if employed in a war industry, he might get his salary raised), but only with the approval of the Income Branch of the Department of National Revenue, which administered the Wartime Salaries Order.

A new Wartime Wages Control Order, issued in December, 1943, and amended early in 1944, discontinued the cost-of-living bonus paid under the previous order and incorporated it in the wage rates. The National War Labour Board was empowered to authorize or direct an increase in wage rates only where necessary to remedy a gross injustice or inequality. An increase could be granted, however, in any case where the cost-of-living bonus and wage increase permitted since August, 1939, had not yielded the employee as much as the full standard cost-of-living bonus. Apparently the cost-of-living bonus was discontinued because it was deemed to have an inflationary tendency on industrial incomes; at the same time, it prompted the farmers to complain that they were not being protected by the government against increased living and operational costs.

The wage-price ceiling of December, 1941, was not the only means employed by Canada in checking the rise in the cost-of-living index. Several additional measures were necessary to make the ceiling hold. Rationing, which began in January, 1942, was gradually extended, with a few exceptions, until the close of the war. Subsidies for keeping prices down were paid on an increasing scale for the duration of the war. The large government loan of February, 1942, greatly reduced consumer purchasing power, and so did the still larger loans that followed. The higher tax payments on 1941 and subsequent incomes exerted a downward pressure on prices. Fortunately for the government, only a few stringent shortages appeared, except in certain durable goods, during the early part of the war. All in all, it may be said that the ability of the Dominion

[16] A. F. W. Plumptre, "Price and Wage Control in Canada," *Proceedings of the Academy of Political Science*, May 1942, pp. 31–32.

government to maintain an effective ceiling on the cost of living and at the same time to prevent the appearance of extensive black markets was perhaps less the result of any inherent virtues in the ceiling itself than it was of the heavy taxes, additional loans, and restrictive measures that prevented total expendable consumer income from rising out of proportion to the supply of consumer goods. No doubt American and British price controls helped Canada somewhat in its efforts to control wartime inflation; but it should be noted that Canadian prices rose much less than either American or British.

The Dominion government continued its stabilization policy in the postwar period until the danger of sharply rising prices could be avoided and a smooth transition to a peacetime economy could be made.[17] It was recalled with some apprehension, that the worst part of the inflationary rise in prices after World War I came during the eighteen months after the armistice and was followed by an even more abrupt and disconcerting deflation.

On July 5, 1946, Finance Minister J. L. Ilsley took occasion to make a statement to the House of Commons on certain important steps which his government was taking in the economic and financial fields in order, as he put it, "to prevent undue increases in the cost of living and costs of production, improve the effectiveness of price control, encourage a greater supply of scarce goods which we import from other countries, and generally strengthen the stabilization programme and facilitate an orderly postwar adjustment of the Canadian economy while protecting it from the major effects of adverse developments outside our borders." [18] He said the general threat to Canadian price stability which came from the rise in prices in the United States, then substantially above the Canadian price level, led his government to take such steps. Accordingly he announced four major steps: (1) the issuance of a long but simple and clear list of all goods and services which continued subject to price control; (2) price control of imported goods on the basis of the importer's landed costs, plus a prescribed maximum mark-up; (3) adjustment of the rate of exchange of the Canadian dollar to parity with the United States dollar; [19] and (4) continuation of the policy of paying subsidies to

[17] Finance Minister Ilsley's Budget Speech of October 12, 1945, in *House of Commons Debates*, pp. 1038–39. See also "Employment and Income with Special Reference to the Initial Period of Reconstruction," presented to Parliament by the Minister of Reconstruction, April, 1945, pp. 19–21.

[18] *Ibid.*, July 5, 1946, p. 3229–35.

[19] This change was made effective immediately, that is, at 8 P.M. eastern daylight saving time on July 5, 1946. Thereafter the banks and other authorized agents of the Foreign Exchange Control Board were required to buy United States dollars at $1 Canadian funds, and sell at $1.005. Similarly, the buying rate for pounds sterling was fixed at $4.02, and the selling rate at $4.04. See above, p. 201.

prevent undue increases in prices of articles of major importance in the consumer's cost of living. The first step, Mr. Ilsley said, was taken in order to reassure the Canadian public that the government had no intention of dismantling the system of price control. And he added that the control of rents would remain unchanged. The second step, he asserted, was one that had been forced by external circumstances over which Canada had no control. It would be enforced by an order of the Wartime Prices and Trade Board establishing maximum mark-ups over landed costs for a wide list of imported consumer goods. The purpose would be to minimize any adverse effect on consumer prices in Canada, prevent pyramiding of foreign price increases, and remove any temptation to handle imported goods rather than domestic goods, if the latter were available in adequate quantity. The third step, he said, would help to offset the effect of high and rising prices in other countries. It would mean that imports, particularly those from the United States, would be 10 per cent less in terms of the Canadian dollar. This, he thought, would offset at least for the time being the higher American price level. He pointed out that by May, 1946, the United States price index had increased 33 per cent over the level of August, 1939, as compared with an increase of 21 per cent in Canada.[20] Anyhow, he observed that regardless of what action might be taken in the United States to revive the Office of Price Administration and to restore price ceilings, the divergence of the price levels in the two countries had already gone too far to permit the continuation of what he termed an unrealistic exchange rate. The fourth step, he said, would reduce the impact of increases in foreign prices of the most essential goods by continuing and, if necessary, increasing subsidies. Finally, Mr. Ilsley sagely remarked that "Demands for increases in actual money wages, if pushed to extremes, lead only to conflict and turmoil, and in the end are worthless if they result in skyrocketing prices and a corresponding fall in the value of money. It is to protect the real value of the workman's wage and the purchasing power of the housewife's dollar that we are continuing the struggle to avoid price and wage increases beyond such reasonable amounts as are seen to be justified by changed conditions."

Postwar Fiscal and Economic Prospects

In his budget speech of October 12, 1945, Mr. Ilsley estimated that the total expenditure requirements of the Dominion government for the

[20] In its Report to the House of Commons on June 25, 1948, the Special Committee on Prices pointed out that one of the main causes of the recent rise in the cost of living in Canada was external prices, particularly those of the United States. It indicated that while the price index had risen in Canada to 153, it had gone up to 168 in the United States.

fiscal year then current would run around $4 billions. He observed that there had already been some decline in governmental expenditures and anticipated that this decline would be greatly accelerated as soon as the lag in the payment for war supplies had been overcome and the peak of demobilization had passed. For the present, he said, it seemed prudent for the government to maintain its revenues, reduce its borrowings, and extinguish its deficit as rapidly as possible. But there were other considerations, he added, of an economic nature. The government had adopted, as a major policy, the maintenance of a high and stable level of income and employment, which was accordingly of prime concern in the budget. In view of the urgent need for housing and consumers' goods, he thought it was undesirable for the government through its expenditure program to compete with these demands for labor and materials. He asserted that in the course of six years wartime taxation had begun to blunt incentives and if continued for long would tend to paralyze the development of industry and trade. "In such modifications as it is possible to make in taxation," he said, "it is imperative that we do what we can to reduce costs, restore incentives, encourage investment in the expansion of the employing capacity of our industries, whether in small or large enterprises, and promote efficiency in production and export." These tax changes, he insisted, must be such as to contribute to employment and income, not merely to inflation and speculation, and therefore must be made in conjunction with the maintenance, for several months to come, of the government's economic stabilization policy. He spoke of the Dominion-provincial tax agreements which would expire late in 1946 or early in 1947, and said that if new arrangements were not made between the Dominion and the provinces it would be necessary for the Dominion government to reduce the taxation of corporations by 10 per cent and to revise its personal income tax downward. For this reason, if for no other, he thought it was not prudent at the time to make extensive modifications in the Dominion's tax structure.

Mr. Ilsley proposed that the war exchange tax of 10 per cent imposed on all imports from non-British countries, first levied in 1940, should be discontinued at once in the interest of foreign trade. He proposed some minor changes in the sales tax, the most important of which was the exemption from this tax of machinery and apparatus used directly in the manufacture or production of consumer goods. He said that in the period of reconstruction the excess profits tax was becoming a barrier to expanding employment, but that he did not think the time was yet ripe to remove it altogether. He proposed to relieve somewhat the tax on all sole proprietorships and partnerships, which incidentally were never taxable in the United States under the excess profits tax. He pro-

posed also to release some 12,000 small businesses, whether incorporated or not, from the excess profits tax and to diminish the tax for many others. On larger businesses, he moved to abolish the 20 per cent refundable portion of the excess profits tax and to reduce the rate on excess profits to 60 per cent. The effect of these changes was to make all corporate profits bear a rate of 40 per cent, and corporate profits in excess of 116⅔ per cent of standard profits bear an additional tax of 20 per cent. The changes in the excess profits tax became effective on January 1, 1946. With respect to the personal income tax, which currently provided about a third of the Dominion's revenue, he said that there could not be any very great change until he knew what the future commitments with the provinces would be. He therefore proposed that the existing tax should be abated by 16 per cent dating from October 1, 1945. Several minor changes were also suggested, mostly dealing with certain phases of income tax administration. Some amendments to the Succession Duties Act were sketched. Several changes were proposed in the customs tariff schedules, mainly increases on wrought iron and steel products in the "general tariff" rates applicable to the United States, but these were later rescinded (November 12) in the interest, as Mr. Ilsley explained, "of early international action for the reduction of tariffs and other barriers to world trade."

In reviewing the fiscal year 1945–46 in his budget speech of June 27, 1946, Mr. Ilsley said that the expenditures of the Dominion government for that year amounted to $4,691 millions, a decrease of $555 millions from the preceding year. He put the total revenues, exclusive of refundable taxes, for the same period at $2,955 millions, leaving a deficit for the fiscal year 1945–46 of $1,736 millions, a figure approximately $822 millions lower than the deficit of the previous year. In his budget for the fiscal year 1946–47, he estimated a greatly reduced deficit of around $300 millions, which he said meant that nearly 90 per cent of the total expenditures of the Dominion government would be met from revenues. He observed that this promised a more rapid approach to a balanced budget than he had expected was possible a few months before. He indicated that a balanced budget for the Dominion government was in prospect for the fiscal year 1947–48.

In spite of the fact that Canada was enjoying a level of employment and prosperity such as it had never before experienced in peacetime, Mr. Ilsley said that it behooved his government to proceed cautiously, mainly because it had not arrived at a comprehensive agreement with the provinces on Dominion-provincial fiscal relations. He dealt with the problem of Dominion-provincial relations at some length, declaring that it was far more than merely one of taxation. "What is at stake," he said, "is

Canada's ability (a) to have an effective antidepression policy and to maintain full employment and a high national income after the present abnormal transition period is over; and (b) to achieve a reasonable standard of economic security for all Canadians no matter in what part of the country they may live." After reviewing the arguments for collaboration between the Dominion and provincial governments and the outcome of the recent Dominion-provincial conferences, he offered a modification of his government's proposals for the acceptance of those provinces which wished to cooperate with the central government.[21]

Owing to the uncertain future of Dominion-provincial fiscal relations because of the early expiration of the taxation agreements, Mr. Ilsley said it was very difficult for him to plan his budget on the revenue side. In the absence of any general agreement for a future period between the Dominion and provincial governments, he proposed a substantial reduction in the personal income tax and a 10 per cent reduction in the flat rate tax on corporations, both effective on January 1, 1947, so that provinces wishing to reenter these tax fields might do so. By raising the exemption limits from $660 to $750 for single persons and from $1,200 to $1,500 for married persons, he estimated that between 550,000 and 600,000 taxpayers would be removed from the income tax roll, or about a quarter of the existing number. These and other changes, including a complete rewriting and simplification of the personal income tax law, he said would reduce the Dominion government's receipts from the personal income tax by about 25 per cent on the basis of the current level of incomes. The loss to the government during the current fiscal year would be about $25 millions, and thereafter approximately $150 millions a year. The reduction in the corporation taxes, with the retention for another year of the excess profits tax in somewhat modified form, was estimated to run about $135 millions for the calendar year 1947, only a small part of which would apply to the current fiscal year. Cooperatives were to be taxed for the first time. The succession duties levied by the Dominion government were doubled, although credit for succession duties paid to any of the provinces would be allowed up to 50 per cent. Only minor changes were recommended in the customs and excise taxes. Mr. Ilsley indicated that Canada was making good progress in its transition to peacetime pursuits, and that the difficulties and setbacks encountered were proving less than had been anticipated.

In his budget speech of April 29, 1947, Douglas C. Abbott, who succeeded Mr. Ilsley as Finance Minister on December 10 of the previous year, said that price levels in other countries, particularly in the United

[21] See below, pp. 243–44.

States and Britain, continued substantially higher than in Canada, and through both exports and imports exerted a strong upward thrust on Canadian prices which had been only partially offset by readjusting the exchange rate. But he said the inflationary forces were less powerful than they had been and did not interfere with the orderly decontrol of prices and supplies. He spoke of the Dominion-provincial agreements on tax rentals, and said that he hoped all the provinces would join so as to achieve the comprehensive proposals made by the Dominion government in August, 1945. He said that the previous fiscal year had shown total receipts of $2,984 millions, total expenditures of $2,632 millions, and a surplus of $352 millions, the surplus being applied as a reduction of the net debt. He warned, however, that $372 millions of the receipts were from the sale of surplus war assets, from refunds, and from other credits of a temporary character. In view of the buoyancy in Dominion revenues, he proposed to make a reduction in personal income taxes, starting July 1, of about 29 per cent on the average from existing rates. This reduction would amount to as much as 54 per cent in the bottom bracket and shade off to about 6 per cent in the top bracket. He estimated that the new schedule of rates would be below that of the United States government. Some minor changes were proposed in other taxes.

In his budget speech of May 8, 1948, Mr. Abbott spoke of the unprecedented rate of economic activity in the Dominion and of a new record set in government finance. He indicated that what was otherwise a bright picture was darkened only by the clouds of a difficult international situation. Speaking of the domestic scene, he said that it was the policy of the government to return to a free price system, and to moderate the inevitable increase in prices by whatever fiscal and other methods were possible under such a system. "It would have been more comfortable," he said, "had we been able to return to a free price system under general conditions of stability, balanced production and abundant imports. Fate did not afford us that opportunity. We cannot now retain over-all controls and subsidies in the hope that conditions will soon return to normal. We have consequently removed controls on all but a very few items where shortages are so acute that no reasonable increase in price could either correct them, on the one hand, or bring about a better distribution on the other. We have, of course, been forced, against our will, into emergency control of imports and of a few prices where import restrictions have produced temporary shortages, but this exceptional necessity does not alter or vitiate the basic policy." He said that his government had actively countered inflationary pressure by its budgetary and fiscal policies. War activities had been curtailed and expenditures, except for research facilities, had been brought down and

kept down. Taxes had been reduced where they were impeding work and production, but otherwise kept as high as circumstances would permit in order to produce a surplus that could be used to make loans and investments and to reduce the Dominion debt. As a result of this budgetary policy, expenditures were reduced from $5,136 millions in the fiscal year 1945–46 to $2,199 millions in 1947–48, while revenues maintained at $2,869 millions in 1947–48 had only declined from $3,013 millions in 1945–46. The surplus in 1947–48 was consequently $670 millions, or considerably more than the largest prewar total budget, and large enough, Mr. Abbott added, "to gladden the heart of any Minister of Finance." He said that such a large surplus could only be justified as a check on inflationary forces and to reduce the burden of the national debt.[22] "We can do it now without hardship," he said, "and thereby get ourselves in better position to bear the extra burdens we may have to assume when our national income becomes less buoyant or other untoward developments occur." He thought, therefore, that the budget for 1948–49 should not carry any general tax changes, but that taxes should remain approximately at existing levels, at least, for the next fiscal period. He indicated, too, that the government's fiscal policy had been accompanied by a cessation of wartime increases in the monetary supply and a tightening in the field of credit.

Recent Economic Advances in Canada

World War II brought about a vast expansion of Canada's industrial system and established plant facilities which make possible tremendous strides in the future development of its natural resources. Aside from a surprisingly large war production which put Canada in third place among the United Nations in naval power and fourth in air power, conversion possibilities hold promise of peacetime production equally as significant.

Even before this war, Canada, though it had less than 1 per cent of the world's population, was sixth among the countries of the globe in the extent of its foreign trade, fourth in the volume of shipping leaving its ports, fourth in railway mileage, and first in tourist trade. Canada ordinarily produced five times more wheat than was consumed at home, ten times more newsprint, and twenty times more nonferrous metals. The Dominion's surplus of wheat was 40 per cent of the world's exports of wheat, its surplus of nonferrous metals was also 40 per cent, and its surplus of newsprint was 65 per cent. Canada was one of the largest importers of coal, oil, and steel products. The great bulk of these

[22] Incidentally, the net debt of the Dominion had been reduced on March 31, 1948, by nearly 8 per cent from its peak of two years before.

imports came from the United States; indeed, 50 per cent of Canada's total trade just prior to the war was with the United States, while 30 per cent was with Britain.

Before the war Canada was either the first or second best customer of the United States, its annual imports sometimes approaching a billion dollars. It bought nearly half of all American books and printed matter sold abroad, a third of all petroleum products, a fourth of the agricultural machinery, and vast amounts of coal. At the same time the United States had four billion dollars invested in Canada, three times as much as in any other country. One-fourth of all the manufacturing in Canada was done by American controlled companies. American tourists spent twice as much in Canada as they spent in any other country.

By 1929 Canada had made such rapid strides after World War I that its national income per capita was greater than that of any other country except the United States. The effects of the depression, however, brought Canada down to about sixth place in per capita income by 1937. Nevertheless, Canadians enjoyed a standard of living during the interwar period closely approximating that of Americans, the latter being rated as the highest in the world. Electrical gadgets, radios, telephones, and the like were found in almost as great abundance in Canadian as in American homes.

During World War II Canada underwent a complete industrial revolution. It became the world's foremost producer of nickel, asbestos, platinum, radium, and newsprint paper. It gained second place in the production of aluminum (from imported ores), wood pulp, and hydroelectric power. It moved into third place in producing copper, lead, and zinc. Only the United States built more cargo vessels than Canada. Seventy per cent of Canada's total war production was sent outside to other United Nations, and Canada thus became the second exporting nation of the world. Owing to the fact that Canada was such a large surplus producer of war goods, it was the only nation besides America and Britain to be represented on the Combined Boards, which allocated most of the production and raw materials of the anti-Axis powers.

It can hardly be doubted that Canada, during the war and since, has grown to the stature of a first-class power in all but population; indeed, it has already become the leader of the world's middle powers. If world trade conditions in the postwar period continue favorable to Canada, the economic prospects of the Dominion are exceedingly bright. It is probably true that Canada can never be economically self-sufficient. But in the long run, if the Canadian people can make up their minds as to what they want, there is little doubt of their ability to achieve anything within reason.

Chapter X

DOMINION-PROVINCIAL FISCAL ARRANGEMENTS

SINCE the very beginning of federation, Canada has been faced with the problem of fiscal relations between the Dominion and the provincial governments. Both in framing the federal union and in making it work for the past eighty-odd years, Dominion-provincial finance has assumed a major role. It has been the one issue upon which the success or failure of Dominion-provincial arrangements seemed to depend. The Quebec Conference of 1864 was almost wrecked by a dispute over finance. In the provincial discussions which followed, the most telling argument of the opponents of federation was directed against the financial clauses of the Quebec resolutions. When the delegates of United Canada, Nova Scotia, and New Brunswick met at London in 1866, the most important changes made by them in the Quebec resolutions related to finance. After the federation had been formed, the first serious dispute between a province—in this instance, Nova Scotia—and the Dominion was settled by an adjustment of the financial terms for that province. When in 1871 and 1873 British Columbia and Prince Edward Island sought to join the Dominion, their decisions hinged largely on financial arrangements. On numerous later occasions disputes between the provinces and the Dominion have been settled by financial readjustments.

STATUTORY SUBSIDIES

The most important feature of Dominion-provincial finance has been the system of unconditional subsidies which was introduced in 1867, and which has since been greatly extended. This system sprang from the fact that virtually the only developed sources of provincial revenue at the time of federation were customs and excise duties. In order to have a federation at all, the Dominion government had to be given exclusive authority over tariff and excise matters. The functions left to the pro-

vincial governments then cost substantially more than the remaining taxes and revenues which the provinces had available to meet them. So unconditional Dominion subsidies to the provinces were reluctantly accepted at the time as the only solution. These subsidies, however, were deliberately set at a minimum for the essential governmental operations of the provinces, and were expected to remain fixed at that level. It was thought that the provinces would meet the normal growth in their expenditures by developing their own revenues, largely from public domain and direct taxes. But they were very slow in doing this, and in the meantime continued to apply to the Dominion government for increased subsidies.

The original subsidies provided for in the British North America Act of 1867 were (1) per capita subsidies, (2) grants in support of government, (3) debt allowances, and (4) a special grant for New Brunswick. In addition to these subsidies, further grants were introduced from time to time, covering special circumstances: namely, (1) grants in lieu of public lands, (2) grants in lieu of timber duties (New Brunswick), and (3) special subsidies to meet exceptional circumstances.

Per Capita Subsidies

The per capita basis of computing subsidies for the provinces was arrived at by the finance ministers—Galt, Brown, Tupper, and Tilley—of the Quebec Conference as a rough and ready method of providing funds for balancing the provincial budgets. However, as it worked out, the method gave Upper and Lower Canada much more than the Maritimes. Each province was to be paid yearly 80 cents a head for its population on the basis of the 1861 census. Later at the London meeting it was agreed to give Nova Scotia and New Brunswick some advantage over Ontario and Quebec by permitting their per capita grants to rise according to the increase in population at each decennial census until each province had attained a population of 400,000. Since Nova Scotia already had 330,000 population, it did not have far to go before reaching the limit. New Brunswick was somewhat more favored since it had only 252,000 population. Later this limit was applied to Manitoba, British Columbia, and Prince Edward Island when they entered the federation. But when Saskatchewan and Alberta were made provinces in 1905 they were promised payment of the per capita subsidies up to a limit of 800,000 population. When Prince Edward Island began to show a decline in population in the 1901 census the Dominion government agreed to compute its per capita subsidy on its maximum rather than actual population.

In 1907 the limitation was removed, and the per capita subsidies were

paid to all provinces at the rate of 80 cents per head up to 2,500,000 population, and 60 cents per head for any excess population, the subsidies being recomputed at each decennial census. For the three Prairie provinces, the per capita subsidies were recomputed at each quinquennial census with estimates at the middle point between censuses. The estimate computation was later dropped, but the five-year period of adjustment still remains. No other major changes have been made in the computation of the per capita subsidies.

Grants in Support of Government

The per capita subsidies, described above, and originally decided on at the Quebec Conference in 1864, were augmented at the London meeting two years later by the addition of flat grants for the support of the provincial governments and legislatures. The amounts decided upon at the London meeting and incorporated in the British North America Act of 1867 were as follows: Ontario, $80,000; Quebec, $70,000; Nova Scotia, $60,000; and New Brunswick, $50,000. On a per capita basis, the two smaller provinces were clearly favored. The amounts established for the remaining provinces at the time of their entry into the federation were: Manitoba (July 1, 1870), $30,000; British Columbia (July 1, 1871), $35,000; Prince Edward Island (July 1, 1873), $30,000; Alberta (September 1, 1905), $50,000; and Saskatchewan (September 1, 1905), $50,000. The grant to Manitoba was increased in 1882 to $50,000.

In 1907 the flat grants for government were replaced by new sliding-scale grants based on population. Provinces with a population of less than 150,000 were to get grants of $100,000 each; with a population of 150,000 to 200,000, $150,000; with a population of 200,000 to 400,000, $180,000; with a population of 400,000 to 800,000, $190,000; with a population of 800,000 to 1,500,000, $220,000; and over 1,500,000, $240,000. This new basis increased the grants to the older provinces about threefold, with relatively the same proportion of gains for the other provinces. Prince Edward Island was raised from $30,000 to $100,000, British Columbia, from $35,000 to $100,000; Manitoba, from $50,000 to $150,000; New Brunswick, from $50,000 to $180,000; Nova Scotia, from $60,000 to $190,000; Quebec, from $70,000 to $220,000; and Ontario, from $80,000 to $240,000. No further changes have been made in the amounts paid other than automatic increases through gains in population.

Debt Allowances

All provincial debts, together with most of the assets they represented, were assumed by the Dominion government at the time of federation. Most of these debts had been contracted for property, such as railroads,

although a portion had been incurred to meet operating deficits. But no attempt was made to separate this portion. Calculations were based on total net indebtedness, including debt liabilities contracted for, but not actually outstanding in 1864.

In working out the debt allowances the finance ministers of the Quebec Conference wished to treat each province approximately alike. They again used the rough-and-ready basis of population, but devised a more complicated method of calculation. The general idea of the method was to permit the provinces with relatively lower debts to benefit accordingly. Since the per capita debt of Nova Scotia and New Brunswick together was about $25, this figure was set as the basis of the debt allowances (although New Brunswick was later allowed a per capita debt allowance of $27.77). An allowance in round figures was fixed for each province on the basis of this per capita. The province was then to receive 5 per cent per annum on the sum by which its actual debt fell short of its allowance, and it was to pay 5 per cent per annum on the sum by which its actual debt exceeded its allowance. As it worked out, Ontario and Quebec had an excess debt over their combined allowance, and Nova Scotia and New Brunswick came out about even.

In 1869 the debt allowance of Nova Scotia was placed on the same per capita basis as that of New Brunswick, namely, $27.77. Already an argument had arisen between Ontario and Quebec over what portion of the excess debt of $10,400,000 would be assigned to each province. Quebec argued that a division on a fifty-fifty basis was unfair, since Lower Canada had had a very small debt at the time it was merged in United Canada. After some negotiations with the two provinces, the Macdonald Government decided in 1873 that the Dominion would assume the excess debt, and made a general upward revision of the debt allowances for all four of the original provinces. This revision was eventually (in 1884) made retroactive to 1867, the resulting interest credits being added to the respective debt allowances.

When Manitoba was admitted to the federation in 1870, it was given a debt allowance at the per capita rate of $27.77 (the same as New Brunswick) on an estimated population of 17,000, or a computed debt of $472,000. Since the province had no actual debt, it received interest from the Dominion government on this sum amounting to $23,600 a year. British Columbia, on joining the federation in 1871, was given a debt allowance of $27.77 on an estimated population of 60,000, or a total of $1,666,000. Inasmuch as the actual debt of the province was about a million dollars, the Dominion government paid interest at 5 per cent on the difference, or about $33,000 annually. When Prince Edward Island joined the federation in 1873, it held out for a debt al-

lowance of $50 per capita and finally got it. The actual debt of the province at the time was about $41 per capita, most of which had been accumulated in a short period through excessive railroad financing. This concession to Prince Edward Island was a great talking point in favor of the general revision of the debt allowances in 1873. The revision, as it affected the new provinces, was finally worked out in 1884 as a proportion of the increases given to the original provinces, using the populations of the 1881 census as the basis of calculation. The total capital liability assumed by the Dominion government under this revision was $7,172,300 for the seven provinces, and on this sum it was obligated to pay interest at 5 per cent, amounting to $358,615 a year.

By the general debt adjustment of 1884, the sum of $110,800 was added to the net balance of $203,900 which Manitoba then had, raising its assumed debt total to $314,700. In 1885 this basis of calculation was dropped for a substitute allowance, figured at the rate of $32.43 per capita and amounting to $4,054,700. From this amount, however, a deduction was made, because of previous advances by the Dominion to the Manitoba government, leaving a net debt allowance of $3,311,900 on July 1, 1885. Saskatchewan and Alberta were each given a debt allowance of $8,107,500 when they became provinces in 1905. This amounted to $32.43 per capita on a population of 250,000.[1] Interest at 5 per cent on this allowance amounted to $405,375 a year. On the whole, this allowance was something of a financial favor to these new provinces. It was given mainly on the assumption that the provinces had very few public works and would have to incur the expense of building them. But the better terms granted to Alberta and Saskatchewan prompted Manitoba to ask for similar treatment. In 1912 it was given an equal debt allowance, which however amounted to $7,631,700 instead of $8,107,500, since Manitoba had earlier withdrawn $475,800 from its credit balance with the Dominion. No other revisions have since been made in the debt allowances.

Interim Subsidies and Special Grants

The first of the special grants was made to New Brunswick at the time of federation. It amounted to $63,000 a year for a period of ten years, and was intended to permit the province to develop taxation to take its place. In 1869, as a result of the revolt against the financial arrangements led by Howe of Nova Scotia, that province was given a grant of $83,000 a year for ten years in order to put it on a par with New Brunswick. The latter province then claimed that it should also

[1] This was the average per capita allowance used for the smaller provinces in the 1873 adjustment.

have the same amount, since it suffered from similar economic disabilities. Although the Dominion government took no definite action on this claim, New Brunswick was awarded an extra subsidy in 1873. The Washington Treaty of that year, as it applied to the United States and Canada, provided for the abolition of duties on the export of lumber. New Brunswick had been entitled under the British North America Act to continue its export duties on lumber at the level of 1867. When this duty was eliminated by the Treaty, the Dominion government thought it was equitable to compensate the province for loss of revenue. At the same time, the Dominion government took advantage of the opportunity to provide the province with some extra income. An annual subsidy was accordingly granted to New Brunswick in 1873, amounting to $150,000, or about $80,000 more than the estimated loss in revenue from lumber duties.

In the years between 1871 and 1905, subsidies were granted to several provinces for public lands taken over or retained by the Dominion. When British Columbia was admitted to the federation in 1871, it was given a subsidy of $100,000 a year in return for a strip of land extending twenty miles on each side of the contemplated site of the Pacific railway. The Dominion government obligated itself to begin construction on the railway within two years and to complete the line within ten years, which it was unable to do. After prolonged negotiations and an appeal to London by the provincial government, the matter was settled in 1884 by the province's assigning 3,500,000 acres of land in the Peace River area to the Dominion as compensation for deficiencies in the original grant along the railway line; the province also dropped all claims against the Dominion for its failure to complete the railway before 1882. When Prince Edward Island entered the federation in 1873, it received a subsidy from the Dominion of $45,000 a year, not to exceed $800,000, in settlement of the land question. It appears that a considerable part of the land of the island was held by proprietors, who in the early days had been favorites of the British Crown, and that the provincial government wished to buy these out and thus remove absentee ownership from the island; hence, the grant from the Dominion government. In 1882 Manitoba was allowed an annual subsidy of $45,000 in lieu of public lands, for which it had received no grant at the time it entered the federation. This amount was increased to $100,000 in 1885, and to $409,000 in 1912. When Alberta and Saskatchewan became provinces in 1905, they were allowed an annual subsidy of $375,000 apiece in lieu of public lands then held by the Dominion. The whole question of public lands in British Columbia and in the Prairie provinces came up for settlement in 1930. The unalienated lands were re-

turned to British Columbia, and the land subsidy was continued by the Dominion. Upon the recommendations of a royal commission, Manitoba was paid a lump sum of $4,584,000 by the Dominion, the unalienated lands were returned to the province, and the land subsidy of 1912 was continued. The Dominion government reached an agreement with both the Alberta and the Saskatchewan governments to return their public lands, continue their land subsidies, and appoint a royal commission in each case to determine if any further compensation was justified. These commissions recommended a lump-sum payment of $5,000,000 to each province, which was refused by Saskatchewan and was not accepted by Alberta. It seems that one of the three commissioners thought that Saskatchewan was entitled to an award of over $58,000,000, which led the provincial government to think that the $5,000,000 award of the other two commissioners was grossly inadequate. The Alberta government apparently waited on the acceptance of Saskatchewan before making a decision. Early in 1947 the Dominion government reached an agreement with each province in connection with the settlement of its indebtedness to the Dominion for relief advances carried in the form of treasury bills. Each province was allowed $5,000,000, plus interest since 1930, or approximately $8,031,250 (*House of Commons Debates*, July 11, 1947, p. 5549).

Other interim subsidies or special grants have been made to several provinces for various reasons, starting as far back as 1887. At that time the Dominion government gave an additional annual grant of $20,000 to Prince Edward Island, because of its inability to secure and use local railway subsidies owing to its insular position. In 1901 an extra subsidy of $30,000 a year was allowed Prince Edward Island to compensate it for the lack of communication service between the island and the mainland from 1873 to 1888, when the Dominion government established regular ferry service. When Alberta and Saskatchewan became provinces in 1905, the Dominion government gave each of them a special annual grant of $93,700 for a five-year period to be used in the construction of public buildings. In 1907 British Columbia was allowed a special grant of $100,000 a year for ten years to compensate for some of its economic disabilities. Prince Edward Island again made representation for a special grant in 1912, and this time the Dominion government gave it an annual grant of $100,000, mainly on the plea that the people of the island could not bear increased taxation for local expenditures.

By 1925 considerable agitation had developed in the Maritimes for better terms. Early in 1926, the King Government appointed a royal commission—the Duncan Commission—to study the situation. A great

deal of evidence was submitted to the commission, much of it irrelevant and poorly digested. In its report, the commission seemed to feel that it must conciliate the various elements involved by recommending better terms. While it sidestepped a final decision, it suggested that "immediate interim lump sum increases" should be made to the provinces until such time as there could be a "detailed determination and assessment" of the whole situation in the Maritimes. It recommended that the interim annual payments should be made as follows: Nova Scotia, $875,000; New Brunswick, $600,000; and Prince Edward Island, $125,000. The Maritimes were quite satisfied for the time being with the recommendation of the commission, but the western provinces, which wanted the land question settled, were reluctant to agree to it. Indeed, the western representatives in the Dominion Cabinet balked at any further concessions to the Maritimes, and only agreed to the subsidies recommended in the Duncan report after the Maritime representatives had consented to bringing up the land issue in the western provinces (already noted above). At first the recommended subsidies to the Maritimes were voted for only a year, but after 1927 they were paid regularly. A revision of the Maritime subsidies did not again come up until 1935.

By 1934 the pinch of the depression caused the premiers of the Maritime provinces to ask for a review of their interim subsidies. Accordingly, a second royal commission—the White Commission—was appointed to review the whole Maritime problem. For the first time, in their arguments before the commission, the provinces stressed in so many words the plea of "fiscal need." Briefly, this plea meant that if a provincial government, because of its poor economic status, could not finance its governmental functions with the revenues which it could raise, then the Dominion government ought to come to its aid by granting better terms. Previously, the Dominion government had not given larger grants on any such basis; it had instead based its grants on a variety of grounds, most of them narrow in scope and of temporary application. "The truth was," wrote James A. Maxwell in 1936, "that the doctrine of fiscal need was both new and revolutionary. Latent in it were implications of great significance for Dominion-provincial relations."[2] While the commission's report did not admit fiscal need, as such, it said that there were "special conditions" which differentiated the Maritimes from the other provinces. The Maritimes were handicapped, the report said, by a lagging growth in population, limited wealth, and low taxable capacity; and they had not shared proportionately with the other provinces of

[2] James A. Maxwell, *Federal Subsidies to the Provincial Governments in Canada* (1937), p. 181.

Canada in the economic advantages accruing to the Dominion as a whole under the federation. The White Commission, therefore, recommended that the interim subsidies of 1927 should be replaced by annual grants, as follows: Nova Scotia, $1,300,000; New Brunswick, $900,000; and Prince Edward Island, $275,000. This recommendation was accepted by the Dominion government, and these grants were paid from 1935 up to the time of the Dominion-provincial taxation agreements.

By continuing to urge recognition of its special disabilities, British Columbia obtained an interim grant of $750,000 from the Dominion government, which was first voted in 1935 to apply to the fiscal year 1934–35, and was thereafter continued until the tax suspension agreement in 1941. A series of crop failures brought about a crisis in the Prairie provinces in 1936 and 1937, which deeply involved the finances of the governments of Saskatchewan and Manitoba and contributed to the default of the Alberta government. Early in 1937 the Bank of Canada made an examination of the financial position of these provinces. The Bank urged the need for a broad study of Dominion-provincial relations (undertaken a few months later by the Royal Commission on Dominion-Provincial Relations), and suggested that in the meantime the Dominion government would be justified in extending to Manitoba and Saskatchewan temporary financial aid. The fact that Alberta was defaulting on its bonds and paying only 50 per cent of the coupon rate of interest led the Bank to refuse to recommend additional support to Alberta at that time. But in 1945, when Alberta refunded and cleaned up its debt situation, the Bank's suggestion of a special interim subsidy of $600,000 was carried into effect by the Dominion government.[3] Immediately in 1937, the Dominion government granted a special interim subsidy of $750,000 to the Manitoba government, which was continued each year until the tax suspension agreement in 1941. It also gave a special interim subsidy of $3,500,000 to the Saskatchewan government, which was paid for two years and then reduced to $1,500,000.

The subsidies awarded the Maritimes by the White Commission and the special interim subsidies granted to British Columbia, Manitoba, and Saskatchewan (Alberta was also paid a similar subsidy in 1945, covering the years 1937 to 1941) were discontinued in 1941 at the time of the Dominion-provincial taxation agreements, being replaced under these agreements by new subsidies based on loss of revenue and fiscal need. Temporary annual grants amounting to $5,475,000 were therefore displaced under the taxation agreements by annual fiscal need subsidies and compensation for loss of revenue aggregating $3,234,286.[4]

[3] See below, discussion of Alberta's debt situation, pp. 293–96.

[4] See below, p. 232.

Existing Statutory Subsidies

The statutory subsidies paid to the various provinces, as shown in Table IV, amounted to $14,390,408 for 1943 and have continued at about this level through 1946.[5] It will be observed that $6,021,597 of this

TABLE IV

STATUTORY SUBSIDIES PAID TO THE PROVINCES IN 1943 [1]

Provinces	Population Allowances	Debt Allowances	Government Allowances	Compensation for Public Lands	Other Allowances [2]	Total
Prince Edward Island	$ 87,262	$ 38,789	$100,000	$ 5,880	$150,000	$ 381,931
Nova Scotia	462,370	52,771	190,000	—	—	705,141
New Brunswick	365,921	26,465	190,000	—	150,000	732,386
Quebec	2,499,129	127,461	240,000	—	—	2,866,590[3]
Ontario	2,772,593	142,414	240,000	—	—	3,155,007
Manitoba	583,795	381,584	190,000	562,500	—	1,717,879
Saskatchewan	716,793	405,375	220,000	750,000	—	2,092,168
Alberta	636,935	405,375	190,000	562,500	—	1,794,810
British Columbia	654,289	29,151	220,000	100,000	—	1,003,440
Totals	$8,779,087	$1,609,385	$1,780,000	$1,980,880	$300,000	$14,449,352
	Less interest on debt account—Quebec					58,944
	Total statutory subsidies for 1943 [4]					$14,390,408

[1] Subsequent years up to, and including, 1946 have allotted practically the same amounts to each of the provinces as shown in this table.

[2] Consists of additional subsidies to Prince Edward Island voted in the years 1887 ($20,000), 1901 ($30,000), and 1907 ($100,000), and an allowance to New Brunswick in consideration of the repeal of lumber duties.

[3] This total for Quebec has $58,944 deducted from it for interest on debt account, leaving $2,807,646.

[4] Figures for this table are taken from pages 28 and 29 of *Dominion Subsidies to Provinces,* Reference Book for the Dominion-Provincial Conference on Reconstruction, 1945.

amount went to Ontario and Quebec, mainly as a result of the graduated allowances for population. The four western provinces received $1,975,000 as grants in compensation for public lands, which were originally held by the Dominion government and finally returned to them (i.e. the unalienated portions) in 1930. The statutory subsidies have remained fixed for more than a decade, except for the gradual increases in the allowances for population (Prince Edward Island, by arrangement, has remained stationary in this computation, even with a declining population).

Table V exhibits the statutory subsidies paid by the Dominion government to the various provinces since the time of federation. The grand total of these subsidies on March 31, 1947, was $661 millions. More than

[5] In 1946 the total statutory subsidies paid to the provinces were $14,446,629.

$288 millions of this total have been paid to the two wealthiest provinces—Ontario and Quebec. Special grants to the Prairie provinces have amounted to more than $76 millions without the special interim grants of recent years. The latter grants, up to the time they were cancelled in

TABLE V
DOMINION SUBSIDIES
FROM JULY, 1867, TO MARCH 31, 1947
(Millions of dollars)

Provinces	Population Allowances	Debt Allowances	Government Allowances	Special Grants	Total
Prince Edward Island	$ 6.36	$ 3.07	$ 5.02	$ 6.69	$ 21.14
Nova Scotia	28.95	3.87	10.00	.83	43.65
New Brunswick	22.26	1.74	9.36	11.73	45.09
Quebec	112.99	6.85	12.40	—	132.24
Ontario	136.63	6.74	12.80	—	156.17
Manitoba	24.28	18.31	9.21	27.20	79.00
Saskatchewan	24.73	17.03	8.36	26.78	76.90
Alberta	20.14	17.03	7.70	22.40	67.27
British Columbia	19.99	2.23	8.78	8.60	39.60
Totals	$396.33	$76.87	$83.63	$104.23 [1]	$661.06

[1] This amount does not include the special interim grants, as voted and paid since 1934, to the Maritime provinces, Manitoba, Saskatchewan, and British Columbia, which were discontinued by the Dominion-provincial taxation agreements in 1941. Nor does it include any payments to the provinces under the Dominion-Provincial Taxation Agreement Act of 1942.

1941 by the Dominion-provincial taxation agreements, aggregated about $49 millions, of which the Maritimes were paid about $27 millions and the western provinces the remainder.

Conditional Grants and Subventions

By 1912 the Dominion's revenues had grown to quite ample proportions; at the same time, demands for new governmental services were being felt in various parts of the country. But many of these services were in fields under the jurisdiction of the provincial governments, which were still rather limited in the funds they had available for any new work. The Dominion government, taking its cue from Britain and the United States, developed the idea of conditional grants, or grants-in-aid as they were sometimes called, whereby the provinces organized the required services and the Dominion provided a portion of the necessary funds. Parallel agreements, usually based upon legislation, were entered into by the Dominion and the provincial governments, the broad outlines of the aims and methods of disbursing the funds being laid down by the Dominion government.

The first of these conditional grants was made in 1912, and was designed to aid in the promotion of agricultural instruction in the provinces. At first, the Agricultural Aid Act of 1912 set up $500,000 as a conditional grant, but it was replaced by another act in 1913. The latter provided for the distribution of $10 millions over a period of ten years. Each province received a flat sum of $20,000 a year, and the remainder of the annual grant was distributed on a per capita basis.[6] The provincial governments did not have to supplement the Dominion grants in any way, and the only stipulation was that the grants were "not to be used to curtail customary expenditures." All told, $10.9 millions were spent by the Dominion government in furthering the project, which was permitted to lapse at the end of the ten-year period. While the project was said to have accomplished some good results, impartial observers have thought that it was on the whole quite disappointing.

The second of the conditional grants was made in 1918 at the close of World War I to aid in establishing public employment services in the various provinces. Fifty thousand dollars were distributed by the Dominion to the provinces during the first year; this amount was doubled for the second year, and trebled for the third year. The allocation thereafter remained at $150,000 a year. The provinces were required to spend at least as much on their employment services as the Dominion grant provided. All of the provinces, except Prince Edward Island, eventually established public employment offices. Finally in 1941, these offices were taken over by the Dominion government and placed under the direction of the Unemployment Insurance Commission.

In 1919 the Dominion government made a conditional grant of $20 millions for highway construction in the provinces to be spent over a period of five years. Each province was allotted annually a flat sum of $80,000, the balance of the annual grant being apportioned on a per capita basis. The grant was limited to 40 per cent of the cost of highway construction or improvement. Agreements were negotiated with the various provinces and regulations were formulated in consultation with provincial authorities. Only main highways received federal aid, and provincial expenditures were required to be in addition to the usual outlays for roads. Each province was asked to submit a five-year program for highway construction, together with a classification of the roads according to their importance. When this program had been approved, it was then reduced to construction projects, each of which was passed on by Dominion officials before the work was actually begun. The construction of the highways was done under the supervision of the provincial engineer, subject to Dominion inspection. The initial cost was borne by the

[6] Certain veterinary colleges were also given $20,000 a year each.

province, which was later reimbursed to the extent of 40 per cent of this cost by the Dominion Treasury. The procedure was more carefully planned and applied than that of any of the previous conditional grants. The time limit was extended for two years, when it became apparent that the provinces could not use all of the Dominion grant within the five-year period, and then again extended for another two years to run for a total of nine years. Although the Dominion grant was a great stimulus to much needed highway building in the provinces, it was not renewed; and after 1930 no new federal aid to highways was provided, except as part of the program for unemployment relief. The Liberal Government of the day was opposed to the highway construction grant—as well as to all conditional grants—on the theory that extravagance often resulted when the governmental unit which raised revenue was not responsible for its spending. The leaders of the Liberal party also thought that the grant had served its purpose by encouraging the provinces to undertake highway construction, and they felt quite sure that when the grant was first established in 1919 there had been no intention of making it permanent.

The general lack of technical education in Canada before World War I led to a study of the situation by a special commission which recommended federal grants. But no action was taken on account of the war until 1919, when the Dominion government passed a Technical Education Act providing $10 millions to be distributed to the provinces over a period of ten years. A flat grant of $10,000 a year was given to each province, and the remainder was allotted on a population basis. But, unlike the grants made for agricultural instruction, these grants were contingent upon the provinces each spending an equal amount on technical or vocational education. While the provinces had wide latitude in setting up courses of instruction, they had to have Dominion approval in order to qualify for the grants in technical education. Since the provinces did not qualify to spend all the grants in the ten-year period, they were permitted an extension of five more years. The failure of some of the provinces to cooperate with the Dominion government made the administration of the technical education grant very difficult. But even so, it was considered to be an improvement over that of the grant for agricultural instruction. However, the grant for technical education was also allowed to lapse.

Although the Conservative Government passed another act in 1931 to provide an annual grant of $750,000 for a fifteen-year period to assist the provinces in the promotion of vocational education, the pinched condition of the Dominion Treasury due to the depression caused the government to suspend the Act. Nothing further was proposed until the

Liberal Government by Order in Council on March 8, 1945, authorized the Minister of Labour to enter into agreements lasting for ten years with each province to provide Dominion assistance for vocational training at the secondary school level. A flat grant was offered to each province —$5,000 to Prince Edward Island and $10,000 to each of the other provinces. An annual amount of $1,915,000 for a period of ten years was to be allotted to the provinces on the basis of the number of young people age 15 to 19 in each province. This amount was to be matched by the several provinces. An additional $10 millions was offered by the Dominion government for capital expenditures to provide facilities in the provinces for the immediate expansion of vocational training. Again each province was to match the federal allotment, and the grant was to be used in a three-year period. Agreements with the provincial governments anent these grants were still in the preliminary stages at this writing.

In 1919 the Dominion government offered the provinces grants-in-aid for combating venereal diseases. At first, a sum of $180,000 a year was appropriated to be apportioned among the provinces according to population on a fifty-fifty basis. Each province was required to establish free clinics for the treatment of venereal diseases, to provide hospital beds for indoor patients and treatment for jail inmates, and to appoint a specially trained medical director to oversee the work. Inspection by a Dominion officer was required to see that the treatments were properly carried out. In 1924 the annual appropriation was reduced to $150,000, later to $100,000, and in 1932 it was eliminated. The total expenditure of $1,722,300 by the Dominion government over a period of thirteen years was said to have produced excellent results.

In 1927 the Dominion Parliament passed the Old Age Pensions Act, which provided that any province entering into an agreement with the Dominion government would receive 50 per cent of the cost of old age pensions, not including provincial administrative expenses. Later (1931) the Dominion government's contribution was raised to 75 per cent. The Dominion act laid down certain conditions according to which a provincial government, by enacting old age pension legislation, would be entitled to aid. British subjects, seventy years of age and over, who had resided in Canada for twenty years and in the particular province for five years, were to be eligible for a maximum pension of $240 a year each, so long as their total annual income, including the pension, was not over $365. These terms were later amended by Orders in Council under the authority of the War Measures Act, so that the maximum pension was increased to $300 a year, and the total annual income, including the pension, to $425 a year. British Columbia immediately took advantage

of the Dominion's conditional grant for old age pensions. Four more provinces—Manitoba, Saskatchewan, Alberta, and Ontario—joined the scheme by 1930. Gradually the Maritime provinces came in, and Quebec was the last province to join in 1936. The number of pensioners in each province has increased at a rapid rate, and the average monthly pensions, which are not uniform for the provinces, have also been increased, particularly during the war years.[7] In addition to the old age benefits, pensions have also been authorized since 1937 for blind persons who have reached the age of 40 years. These persons qualify on the same basis as the aged under the terms and conditions of the Old Age Pensions Act. The provinces all pay slightly higher monthly pensions to the blind than they do to the aged. For the fiscal year 1946–47 the annual cost to the Dominion government of pensions for the aged was $43.8 millions and for the blind $1.6 millions, a total of $45.4 millions. The total cost to the Dominion government from the beginning of the pension system to March 31, 1947, was $424 millions for the aged and $10 millions for the blind, or $434 millions in the aggregate.

Other Grants and Subventions

The foregoing conditional grants were supplemented during the depression period and the recent war years by other grants and subventions which were paid to the various provinces by the Dominion government. By far the largest of these grants or subventions was the annual aid for unemployment and relief allotted to the provinces by the Dominion government between 1930 and 1940. In some respects, this aid resembled a conditional subsidy; in other respects, it was quite different. The total amount of aid and the purposes for which it was expended varied widely from province to province. The aid itself assumed sundry forms, such as cash subventions, Dominion assumption of certain classes of expenditures either in whole or in part, Dominion guarantees of provincial borrowings, and Dominion advances to the provinces for their shares of the relief load. At first the Dominion's contributions were for jointly financed public works to provide employment or for direct relief, but later they included agricultural relief and rehabilitation, the care of transients, the placing of unemployed persons on farms, agricultural settlement, training camps, and other projects.

Dominion aid for unemployment and relief ran into large figures by the time it was suspended because of improved conditions in the early part of 1941. It amounted to as much as $50 millions a year for two of the years during the depths of the depression. For the whole period from 1930 to 1941 the Dominion government paid out approximately $394

[7] For the number of pensioners and the average monthly pensions, see above, p. 163.

millions in aid under relief legislation, $317 millions of which was paid directly to the provinces.[8]

Special subventions were paid to the provinces by the Dominion to carry on war emergency training and youth training programs. The war emergency training program was started in June, 1940, as a means of instructing both youths and adults in how to make themselves useful in the industrial life of the country during the war period. There were three types of training: full-time pre-employment classes lasting from two weeks to six months; part-time training, mostly of a technical nature, for persons already employed in industry; and training in plant schools in industrial establishments. By April 1, 1943, Parliament had allotted $8,695,000 to the war emergency training program, and over $6 millions of this amount had been paid out to eight provinces (excluding Prince Edward Island), the lion's share of $2.5 millions going to Ontario. The youth training program was started in 1939, when Parliament set aside $1.5 millions for the work. The program consisted mainly of special courses for young people in the rural communities and financial assistance to university students after their first year. Medicine, dentistry, nursing, and engineering were specially favored courses of university training. By April 1, 1943, $245,000 had been paid to the provinces by the Dominion government for youth training.

Dominion-Provincial Taxation Agreements

An additional class of Dominion payments was introduced during the war period to compensate the provinces for the surrender or loss of certain revenues. In its report of 1940, the Royal Commission on Dominion-Provincial Relations urged, among other things, the taking over by the Dominion government of all income, corporation, and inheritance taxes in exchange for the Dominion's assumption of provincial debts and a system of Dominion "national adjustment grants" to the provinces. A Dominion-provincial conference was called at Ottawa on January 14, 1941, to consider the Royal Commission's proposals. After two days the conference came to an abrupt end, since the representatives of two or three of the provincial governments refused even to discuss the proposals. Before the conference broke up, however, J. L. Ilsley, Dominion Minister of Finance, warned that war financing would probably compel the Dominion government to invade the provincial tax fields. A few weeks later in his budget speech of April 29, 1941, Mr. Ilsley requested the withdrawal of the provinces and their municipalities from the personal income and corporation tax fields for the duration of the war and one year thereafter. At the same time he raised the Dominion's corporation

[8] *The Canada Year Book* (1941), p. 673.

and personal income tax rates to heights which made it quite difficult for the provinces to continue to add their own corporation and personal income taxes to the Dominion levies. As an inducement to the provinces to withdraw temporarily from the two tax fields, Mr. Ilsley offered to each province an annual grant either (a) equal to the amount of revenues the province and its municipalities actually obtained from these sources in the fiscal year ended nearest to December 31, 1940, or (b) equal to the amount the province paid out as net debt service for the same period (not including contributions to sinking funds), less the revenue it derived from succession duties. In addition, he offered supplementary subsidies based on fiscal need[9] where necessary, but only on condition that the existing special grants to certain of the provinces would be discontinued; and he also proposed to guarantee to each province an amount equivalent to the revenues it received from gasoline taxes in its fiscal year ended nearest to December 31, 1940, provided it made no change in its gasoline tax rate. In this connection the Dominion government introduced succession duties, estimated to yield annually about $20 millions, and a 3-cent-a-gallon tax on gasoline. Both of these forms of taxation had previously been left exclusively to the provinces.

The agreements covering provincial withdrawal from the income and corporation tax fields were drawn up during the latter part of 1941 and approved by the Dominion and provincial governments. Early in 1942 the Dominion Parliament passed the Dominion-Provincial Taxation Agreement Act and the provincial legislatures ratified supporting acts. Five of the provinces—Alberta,[10] British Columbia, Manitoba, Ontario, and Quebec—elected to accept compensation on the basis of the first, or "tax," option. The other four provinces found the second, or "debt," option more favorable.

The taxation agreements with the provinces were uniform except for certain special clauses required to meet individual situations in each province. The provincial governments were permitted to retain the taxes already collected in their 1941 fiscal years, except for certain refunds which had to be made. The payment of the Dominion government to each province in this period was to be the amount agreed upon, less the amount collected and retained by the province. But the amount thus withheld by the Dominion government would be paid to each province

[9] Apparently the Dominion government here accepted for the first time the idea of a "fiscal need" subsidy in just those terms. The Royal Commission on Dominion-Provincial Relations had already advocated such a subsidy.

[10] Although Alberta found the "debt" option preferable, it was not permitted to accept this option because it had defaulted on its bonded debt. Later (1945) when its debt was refunded and back interest paid, the Dominion government made retroactive adjustments to put it on the basis of the "debt" option. See below, pp. 293–96.

at the termination of the agreement in order to carry the province through a period of adjustment when no such tax revenues would be available to it.

The annual payments by the Dominion government to each of the nine provinces under the taxation agreements are shown in the accompanying Table VI. It will be observed that these payments amounted in

TABLE VI

DOMINION PAYMENTS UNDER THE TAXATION AGREEMENTS

Provinces	Compensation for Vacating Taxes	Loss of Revenue Subsidy	Fiscal Need Subsidy	Total Annual Payments
Prince Edward Island	$ 264,769.94	$262,174.02	$ 175,000.00	$ 701,943.96
Nova Scotia	2,585,308.72	325,619.31	—	2,910,928.03
New Brunswick	3,278,574.15	71,493.30	300,000.00	3,650,067.45
Quebec	20,586,074.56	—	—	20,586,074.56
Ontario	28,964,039.54	—	—	28,964,039.54
Manitoba	5,054,740.92	—	600,000.00	5,654,740.92
Saskatchewan	4,330,471.29	—	1,500,000.00	5,830,471.29
Alberta	5,827,793.94 [1]	—	—	5,827,793.94
British Columbia	12,048,367.51	—	—	12,048,367.51
Totals	$82,940,140.57	$659,286.63	$2,575,000.00	$86,174,427.20

[1] Alberta was given an additional annual sum of $1,746,933.30 in 1945 on completing the refunding of its defaulted debt, whereupon it switched over to the "debt" option. Prior to that time it had received $4,080,860.64 annually.

The figures in this table are taken from pp. 28–29 of *Dominion Subsidies to Provinces*, Reference Book for the Dominion-Provincial Conference on Reconstruction, August, 1945.

the aggregate to over $86 millions, of which more than $49 millions were made to Ontario and Quebec. In addition to compensation for taxes actually vacated to the Dominion, the Maritimes were given a subsidy for loss of revenue, amounting to over $659,000. While this amount was, in effect, a fiscal need subsidy, it was not so designated. Prince Edward Island and New Brunswick, however, each received a fiscal need subsidy, amounting to $175,000 for the former and $300,000 for the latter. Prince Edward Island, therefore, received more than $437,000 over and above the taxes actually vacated by it. This amount was considerably more than the $275,000 it received under the award of the White Commission, which was suspended by the taxation agreement. New Brunswick received $371,000 as against the White Commission's award of $900,000; likewise, Nova Scotia got $325,000 as against $1,300,000 awarded by the White Commission. Manitoba was allowed a fiscal need subsidy of $600,000 in place of the interim subsidy of $750,000 which it had previously received. Saskatchewan was given the same

amount as a fiscal need subsidy that it had previously received as an interim subsidy. Alberta and British Columbia did not receive fiscal need subsidies, although they had both been paid interim subsidies of $600,000 and $750,000, respectively, before the taxation agreements became effective.[11]

The gasoline tax revenues of the provinces were guaranteed by the Dominion government at the levels shown in the accompanying Table VII. Under this guarantee, which became effective in 1941, the Dominion government paid out during the war period as much as $11.8 millions in a single year (1943). In his budget speech of March 2, 1943, Mr. Ilsley also guaranteed the liquor revenues of the provinces at the amount collected in each province during the twelve months ended June 30, 1942 (also shown in Table VII). This guarantee was made largely by reason of a change by the Dominion government in the basis of levying customs duties on imported spirits. It assured the provinces of getting throughout the war period the highest annual revenues they had yet obtained from liquor sales. So well did the provincial liquor revenues hold up that the Dominion's guarantee cost the government nothing.

TABLE VII

DOMINION GUARANTEES OF PROVINCIAL RECEIPTS

Provinces	Gasoline Tax Receipts	Liquor Revenue Receipts
Prince Edward Island	$ 307,901.72	$ 149,264.68
Nova Scotia	2,853,363.82	4,211,905.53
New Brunswick	2,101,072.01	2,666,115.59
Quebec	11,803,248.13	11,009,047.93
Ontario	26,608,290.59	16,312,616.49
Manitoba	2,678,148.64	3,033,934.46
Saskatchewan	3,397,279.42	2,531,588.58
Alberta	3,221,975.68	4,178,493.69
British Columbia	3,763,625.95	6,368,236.86
Totals	$56,734,905.96	$50,461,203.81

As a result of the taxation agreements, provincial revenues remained practically stable for the duration of the war, which no doubt was an advantage to the provinces. At the same time the Dominion government was able to formulate a single plan of taxation for the whole country, involving the two major sources of taxes. In this way the greatest revenue

[11] Alberta's interim subsidy, however, was not paid until 1945, upon the implementation of its debt reorganization program.

was obtained with the least expense and confusion and the most equitable distribution of the tax burden. Thus, during the war the Dominion enjoyed some of the advantages which a unitary state possesses in the field of taxation.

Fiscal and Other Proposals for the Postwar Period

Important recommendations relative to Dominion-provincial fiscal relations were made in the report of the Royal Commission on Dominion-Provincial Relations, and subsequently in the proposals of the Dominion government submitted to the Dominion-Provincial Conference on Reconstruction. The report of the Royal Commission was published in May, 1940, when Canada was already engaged in World War II, and consequently never really had the attention of the country focused on it. The subsequent proposals of the Dominion government were made in August, 1945, with the express purpose of directing the thinking of the provincial governments to the fiscal and other needs of postwar Canada.

Recommendations of the Royal Commission

The recommendations of the Royal Commission on Dominion-Provincial Relations concerning the relative financial burdens of the federal and provincial spheres of government dealt mainly with the social services and with debt charges. The urgent need for certain far-reaching changes in these spheres was emphasized. The Commission recommended that relief to all unemployed persons in Canada who were able to work should be provided solely by the Dominion government. At the same time, it thought that the Dominion government should have authority to inaugurate unemployment insurance and a national system of employment offices. The provincial and municipal governments would continue to be responsible for unemployables and for other forms of social service, but with the aid of "national adjustment grants" which would provide for at least average Canadian standards.

The Commission proposed that the Dominion government should assume the whole of the dead-weight cost of all existing provincial debts,[12] and that machinery should be set up to control future provincial borrowings. The provinces would thus have no further provisions to make for sinking funds and would be relieved of heavy annual interest charges. In addition, the Dominion's assumption of provincial debts would strengthen Canadian credit as a whole, obviate provincial defaults, and make refunding easier and cheaper.

[12] Because of the smaller proportion of provincial debt in Quebec, the Commission suggested in this case that the Dominion assume 40 per cent of the combined provincial and municipal indebtedness.

To enable the Dominion government to finance these new services and added debt charges the Commission proposed that the provinces should vacate the income, corporation, and estate tax fields. Apart from the Dominion's need of additional funds, the Commission felt that these taxes could not be levied efficiently and equitably by the provinces. The Dominion government, while retaining its unlimited taxing powers, would undertake to respect the remaining revenue sources of the provinces.

The Commission recommended that the provinces should surrender all existing subsidies. In the place of these subsidies, the Dominion government would pay annually to certain provinces a national adjustment grant. The amount of this grant would be so computed as to enable each province, without resort to heavier taxation than the Canadian average, to provide adequate social, educational, and developmental services. The weight of the tax burden would be estimated by comparing the provincial and municipal taxation with the total income of the province. The test of adequacy of social and educational services would be found in the Canadian average for these services. The adequacy of developmental services would be tested by what the province had done in recent normal years. In short, the measure of assistance which the Dominion government would provide was to be based not upon the adverse effects of federal policies, but upon the "fiscal need" of the province as it arose in each case.[13] The initial adjustment grants would be irreducible.[14] Increases would be granted, with the approval of the proposed Finance Commission,[15] at appropriate intervals if they were needed to enable the province to perform its functions without exceptionally heavy taxation. In addition, an emergency grant might be made to a province in which abnormally bad conditions prevailed, but this

[13] *Report*, Book II, p. 233. "The principle," says the Commission on page 127 of its report (Book II), "is basically the same as that underlying the Confederation settlement, but the major changes which have occurred since Confederation in the relative taxable capacity and governmental responsibilities of the different provinces make it necessary to discard the assumption that equal per capita payments would provide for real equality of fiscal positions. This assumption has, in fact, long been discarded, and it has been the Commission's effort to replace the obsolete formula, and the *ad hoc* makeshifts which have grown up about it, with a system based as far as possible on ascertainable facts and real equality of treatment."

[14] These initial adjustment grants were calculated by the Commission on an annual basis, as follows: Prince Edward Island, $750,000; Nova Scotia, $800,000; New Brunswick, $1,500,000; Quebec, $8,000,000; Manitoba, $2,100,000; Saskatchewan, $1,750,000 (and an indicated emergency grant for Saskatchewan of perhaps $2,000,000 more). Incidentally, the three provinces—Ontario, Alberta, and British Columbia—which were not allowed adjustment grants, were the ones to oppose the Commission's findings at the Dominion-provincial conference of 1941, resulting in the abrupt ending and failure of the conference.

[15] See above, Chapter II, p. 23.

grant would be made for only a year at a time and would be eliminated as soon as possible. No control over provincial expenditures was contemplated. Each province was to be free to expand or contract its services as it saw fit, or to develop some services beyond the Canadian average.

The changes which were actually made in Dominion-provincial relations during the war period were in the direction of realizing some of the recommendations of the Royal Commission (if only temporarily, as in the case of taxation shifts). The British North America Act was amended in 1940 to give the Dominion government authority to establish a nation-wide system of unemployment insurance. In connection with this system, the Dominion took over the provincial employment offices and set up a national employment service. After the failure of the Dominion-provincial conference of January, 1941, which was called to discuss the proposals of the Royal Commission, the Dominion government asked the provinces to vacate the income and corporation tax fields for the war period. This was formally arranged in 1942 by the adoption of a series of taxation agreements, extending for the duration of the war and one year beyond. In conjunction with these agreements, the Dominion government indirectly assumed the debt charges of five of the provinces—Saskatchewan, Alberta, and the three Maritimes. The Dominion government levied an inheritance tax for the first time in 1941, thus invading what had hitherto been exclusively a provincial tax field.

The 1945 Proposals of the Dominion Government

Following the collapse of Germany in the spring of 1945, the Liberal Government of Canada, under the leadership of Prime Minister Mackenzie King, outlined certain proposals with respect to Dominion-provincial relations in the postwar period. These proposals were printed and submitted to the Dominion-Provincial Conference on Reconstruction which met in preliminary sessions at Ottawa on August 6–10, 1945.

Mr. King's Government proposed a program of national development, stable employment, and health and welfare standards designed to maintain a high income and to prevent the recurrence (in so far as domestic policies can do so) of the kind of economic situation which existed in the 1930's. Aside from certain transition measures, such as veterans aids, emergency housing, and industrial reconversion, the two essential features of this program were public investment and social security. Public investment, or capital outlay, was to be managed in cooperation with the provinces in such a way as to compensate for fluctuations in private investment and employment. It was to be the key to cyclical budgeting by

the Dominion government.[16] The social security aspects of the program were outlined as extended health service and insurance, national old age pensions, and unemployment assistance, which it was declared would provide Canada with a complete system of social welfare when combined with the health and welfare measures already adopted during the war. The establishment of these new features, it was said, did not require any change in the constitutional jurisdiction or responsibility of the Dominion or provincial governments.

In outlining the public investment features of the program, emphasis was placed on separating the investment activities into two groups: those for which the Dominion would assume primary responsibility, and those which the provinces and their municipalities could best perform. This division, however, would not preclude federal assistance to the second group; it was intended mainly to avoid duplication and inefficiency. The Dominion government was ready to give assistance to the provinces in order to gain control over the timing of all public investment. It was recognized that some public investment was inflexible as to timing, that is, it could not be expanded when employment was slack and contracted when employment was buoyant. But a large sector of public investment was regarded as being postponable as to the time of its initiation. With respect to this sector, the Dominion government offered the provinces two types of grants: "planning grants" equal to half the cost of all preliminary work, provided the projects were acceptable as subject to timing; and "timing grants" for accepted projects, which were to be determined as to amount by the Dominion government in January of each year in the light of the current economic and employment situation. Evidently, these grants were to be used as an important instrument in carrying through the Dominion government's compensatory spending policy.

The first step toward a national health program for Canada was described as "planning and organization" by the provincial governments, preliminary work estimated to take about eighteen months. For this work the Dominion offered a grant of $620,000, divided among the provinces on the basis of $5,000 each, plus five cents per capita according to the 1941 census. Following this work the provinces were to be permitted to qualify for certain public health grants made by the Dominion, provided they satisfied the Government of the day in consultation with the Dominion Council of Health that they could use such grants effectively. There were to be eight of these proposed grants, one each for general public health, tuberculosis, mental health, venereal diseases, crippled children, professional training, public health research, and civilian

[16] See above, pp. 85–88.

blind. The general public health grant was to be distributed annually to the provinces on the basis of 35 cents per capita, estimated to total slightly over $4 millions. The tuberculosis grant of $3 millions annually was to be distributed one-half on a per capita basis and the other half according to the average number of deaths from tuberculosis over the previous five years in each province, but not to exceed one quarter of the total moneys expended the previous year by the province and its municipalities for the prevention and treatment of tuberculosis. The mental health grant of $4 millions a year was to be available to the provinces on a per capita basis, not to exceed one-fifth of the total moneys expended the previous year by the province and its local units for the treatment of mental illness. The venereal disease grant of $500,000 a year was to be distributed one-half on the per capita basis and one-half according to the number of new cases reported in the previous calendar year, the amount of the grant to be matched by the province. The crippled children grant was to be distributed mainly on a per capita basis, it being left to the Dominion Council of Health to determine a supplementary method. The grant of $250,000 a year for professional training and the grant of $100,000 a year for public health research were undistributed, and were to be applied as conditions seemed to warrant. The grant for civilian blind was to permit the pension age of blind persons to be lowered from 40 to 21 years, and also to provide treatment for the blind. This grant was estimated at $1.2 millions, which sum was to be matched by the provincial governments. The total estimated cost to the Dominion of all of these health grants was put at $13.6 millions a year. In addition, it was proposed that the Dominion would provide loans, at a low interest rate, to the provinces for the construction and extension of hospitals.

An important part of the national health program was a proposal for a health insurance service. It was said that a number of years would be required to establish this service throughout Canada, even with all the provinces cooperating. The cost of the service was to be met on a per capita basis, the initial stage being undertaken after the work under the planning and organization grant had been completed. This stage would involve general practitioner care, hospital care, and visiting nursing care, estimated to cost approximately $10.20 per capita for the country as a whole. Of this amount, the Dominion would provide one-fifth, or $2.04. It would share the additional costs equally with the provinces, these being estimated at $4.08 per capita for the Dominion. A later stage would involve other medical care (consultant, specialist, and surgical), other nursing care, dental care, and pharmaceutical and laboratory services. The cost of these services, estimated at $11.40 per capita, would be met by the Dominion on a similar basis. The full health insurance

plan when finally developed was estimated to cost $250 millions a year on the basis of the 1941 population. The Dominion's share of the cost would be $150 millions and the provincial governments' share $100 millions.

The proposal for national old age pensions involved a plan entirely financed and administered by the Dominion government, and paid at the uniform rate of $30 per month to all Canadians over 70 years old regardless of means. The cost of this plan was estimated at $200 millions in 1948. If the provinces wished to provide old age assistance to citizens between 65 and 70 years old, the Dominion would contribute 50 per cent of such assistance up to a total of $30 per month. This assistance was estimated to cost from $34 to $40 millions in 1948, one-half of which the Dominion government would pay. The existing old age pension scheme would be replaced by the new plans.

The proposal for unemployment assistance was in addition to the unemployment insurance scheme established by the Dominion in 1941. About a fourth of the salary and wage earners of Canada were not covered in 1945 by the unemployment insurance. It was proposed that unemployment assistance would apply to this group until such time as many of the individuals were covered into the insurance scheme. Assistance would also be provided for self-employed persons and others who could not qualify for insurance coverage. The unemployment assistance would be entirely financed by the Dominion, so long as it applied only to employable unemployed persons. The Dominion would continue to provide national employment service, and would aid in rehabilitating the physically handicapped and in providing vocational training.

In order that the Dominion might meet the costs of the program just outlined, the King Government proposed that the provincial governments should by agreement forego the imposition of personal income, corporation, and inheritance (succession) taxes, leaving the Dominion government the full and exclusive use of these revenue sources. Aside from providing the Dominion government with increased funds, it was argued that such a step would make possible a reorganization of the tax system of the country so as to encourage rather than restrict enterprise, investment, and employment. As a further condition of agreement, it was proposed that the Dominion should substantially raise its existing payments to the provincial governments under an arrangement which would insure stable revenues and provide for future increases in proportion to growth in population and per capita national product. It was therefore suggested that the Dominion government, in lieu of the existing statutory subsidies and payments under the wartime taxation agreements,

should pay each province the sum of $12 per capita a year, increased or decreased in proportion to the value of gross national product per capita as compared with that of 1941. However, this proposed annual payment could not drop below an irreducible minimum equal to $12 per capita of the 1941 population, figured at $138 millions on a gross national product of $8 billions, or $700 per capita. If the proposed arrangement had been in force in 1944, it was estimated that with increased population and national product per capita (approximately $1,000 on $12 billions), the provincial governments would have received $207 millions from the Dominion government.

The proposals of the King Government differed from those of the Royal Commission on Dominion-Provincial Relations in at least three notable respects. In the first place, they extended rather than curtailed the application of conditional grants, or grants-in-aid, particularly in connection with the suggested national health program. Even Prime Minister King appears to have had a change of mind about the use of such grants, since he had vigorously opposed all conditional subsidies at one time. While the Royal Commission made no recommendations for new conditional grants and criticized the administration of existing ones, it did tolerate the continuance of the Dominion grant for old age pensions. In the second place, the Government's proposals ignored the Royal Commission's scheme of national adjustment grants based on fiscal need, and offered instead a new variation of the old system of unconditional subsidies, calculated on a per capita basis of gross national product. The net result of this method of calculation was to give the two largest and wealthiest provinces 62 per cent of the total proposed subsidies, as against 55 per cent of the existing statutory subsidies plus the compensation for vacating the income and corporation taxes. In the third place, the Government's proposals omitted any suggestion relative to the Dominion government's assuming the provincial debts. The Royal Commission had offered the assumption of provincial debts as the principal compensation to the provinces for vacating the income, corporation, and inheritance tax fields. A final suggestion in the Government's proposals indicated that the recommended shift of three important taxes to the Dominion government would place it in a position not only to stabilize the provincial revenues but also to budget for the whole period of an economic cycle and to fix tax rates during this period in such a way as to contribute to a high level of employment.

The Dominion-Provincial Conference of 1945–46

The Dominion-Provincial Conference on Reconstruction, which met at Ottawa on August 6, 1945, received the Government's proposals and

adjourned to study them after four days of preliminary sessions. While the conference was in session, however, it unanimously agreed on setting up a "continuing coordinating committee" consisting of the Dominion Prime Minister, three of his ministers concerned with Dominion-provincial relations, and the nine provincial premiers. The functions of this committee were to supervise and coordinate the work of the conference and of all its committees, naming any new committees when needed. The coordinating committee was also charged with devising improved machinery for Dominion-provincial collaboration. Alex Skelton, research advisor to the Bank of Canada, was named secretary of the coordinating committee. Mr. Skelton had previously served as secretary to the Royal Commission on Dominion-Provincial Relations.

The coordinating committee of the conference met at Ottawa on November 26, 1945, for three days of sessions. No publicity was given to these sessions except an announcement by Prime Minister King in the House of Commons to the effect that the meetings had been harmonious and constructive.[17] Counterproposals by several of the provincial governments were considered. A new committee, "a Dominion-provincial economic committee," was established, upon which the Dominion and each of the provincial governments were represented by three members. Mr. Skelton was also made secretary of this committee. The purpose of the economic committee was to examine and report upon the economic factors affecting Dominion and provincial proposals and relations. This committee held two lengthy meetings during the two months following its creation, preparatory for the meeting of the coordinating committee on January 28, 1946. The latter committee met for five days—January 28 to February 1—and again on April 25 and 26, both meetings being held in camera. Following the last meeting, the coordinating committee adjourned, and a plenary session of the conference was held starting on Monday, April 29, which lasted through Friday, May 3.

At this second session of the Dominion-Provincial Conference on Reconstruction Prime Minister King presented the Dominion's proposals, which had been revised to take care of many of the objections and representations of the provinces. Under these proposals the provinces were to agree for the next three years not to levy income, corporation, and inheritance taxes in return for specified unconditional payments by the Dominion. If any province wished to continue to levy inheritance taxes, it might do so on condition that the Dominion's payment would be appropriately reduced. The Dominion guaranteed a minimum annual payment to each province equal to $15 per capita, an increase of $3 per capita over the proposals of nine months before. This payment was to

[17] *House of Commons Debates*, November 30, 1945, pp. 2763–64.

be augmented in proportion to increases both in population and in per capita gross national product based on the average of the last three years. In no case was the payment to a province to be less than 150 per cent of that province's annual receipts under its wartime taxation agreement with the Dominion, and no province was to receive less than $2 millions, the amount fixed for Prince Edward Island. The proposed payments to all the provinces were guaranteed at a minimum level of $181.4 millions, 60 per cent of which would go to the two wealthy provinces—Ontario and Quebec. In actual dollars these payments amounted to over $43 millions more than was contained in the earlier proposals. While each province got a larger amount than had previously been allotted to it, the percentage of the total going to Ontario and Quebec was less. As a matter of fact, Ontario would get 32 per cent of the proposed minimum payments as against 35.5 per cent of the aggregate receipts from the wartime taxation agreements, statutory subsidies, and provincial inheritance taxes. While this reduction was to be expected in any distribution designed to help the poorer provinces, it nevertheless accounted for much of the opposition to the revised plan which was later expressed by the Ontario premier. With respect to the public investment features, a national health program, old age pensions, and unemployment assistance, the revised plan remained practically as outlined in the earlier proposals.

As the conference proceeded, some of the provincial premiers indicated that they were prepared to accept in principle the revised proposals of the Dominion government. The premiers of Ontario and Quebec, while professing a willingness to surrender the income and corporation tax fields for a "fair rental," failed to specify in dollar value what they considered a fair rental to be. The premier of Quebec, Maurice Duplessis, never made quite clear just what changes in the Dominion proposals would be necessary to make them acceptable to his province. He left the conference before the final afternoon session, pleading urgent business at home. The premier of Ontario, George A. Drew, refused to relinquish the inheritance taxes, and asked that the Dominion government withdraw from other fields it had invaded, such as gasoline, amusement, and some minor taxes, which he considered exclusively provincial taxes. He suggested a "national adjustment fund" to be administered on behalf of the poorer provinces which could not pay their way. He offered an alternative plan to the Dominion proposals, but it was not until the closing hours of the conference that the financial implications of this plan were disclosed. It was then calculated by the Dominion Minister of Finance that the total cost of the plan to the Dominion Govern-

ment would put it much beyond the realm of responsible consideration. The Dominion Government, the Minister said, was being asked under the Ontario plan to forego revenues estimated at $102 millions a year and to accept an increase in its obligations of at least $32 millions and perhaps as much as $100 millions, as compared with those to be assumed under the Dominion's revised proposals. After some further ardent protests by Mr. Drew to the effect that he was not uncompromising but that the Dominion government had adopted a "take it or leave it" attitude, the conference adjourned *sine die.*

Financial Proposals of Limited Application

About two months later, Finance Minister Ilsley, in his budget speech of June 27, 1946, said that inasmuch as an intolerable financial situation might develop in some of the provinces upon the termination of the Dominion-provincial taxation agreements late in 1946 or early in 1947, he felt that his Government should again offer a modification of its previous proposals. He therefore proposed that as many of the provinces as wished to might accept the Dominion payments as previously calculated, but this time he suggested a five-year basis of agreement since it might be from one to two years before many of the provinces accepted. He also proposed that the provinces which accepted would agree not to levy any taxes on personal income, that they would undertake to levy a special 5 per cent tax on net corporate income until such time as all the provinces accepted, when it would be discontinued, and that they would not levy inheritance taxes or, if they did, that they would accept an appropriate reduction in the Dominion payments. To those provinces which did not accept immediately, he made some concessions, namely, a 10 per cent reduction in the flat rate corporation tax and a substantial reduction in personal income tax, effective in 1947, which would enable the provinces so desiring to reenter these tax fields. But he pointed out that what he proposed was only an interim program, and that the Dominion's comprehensive proposals embodying economic stabilization, social security, and unemployment assistance must await satisfactory financial agreements with all the provinces.

Mr. Ilsley's proposals were sent directly to the premiers of the nine provinces, with whom he planned this time to negotiate separately. During the next six months considerable correspondence was exchanged, some of the premiers writing directly to the Dominion Prime Minister. An effort was made, particularly by the premier of Ontario, to have a Dominion-provincial conference called to discuss the revised proposals. But Prime Minister King was adamant in his stand that another con-

ference should not be called until all the provinces had either accepted or rejected the latest fiscal proposals.[18] Several of the premiers indicated that the proposals were acceptable to their governments, provided certain minor adjustments were made in them.

Late in 1946, Douglas C. Abbott succeeded Mr. Ilsley as Minister of Finance, and undertook further negotiations with the provincial premiers. On January 27, 1947, Mr. Abbott issued a press statement in which he set forth a new formula for calculating the fiscal proposals of the Dominion.[19] Under this formula each province would receive a guaranteed minimum annual payment which would be subject to adjustment upward for increases in provincial population and in gross national product per capita, averaged over the last three years. For Prince Edward Island, however, the guaranteed minimum would be a flat sum of $2.1 millions. The other provinces would have the choice of two options under the formula for determining their guaranteed minimum annual payment. The first option involved three elements: (1) $12.75 per capita based on the 1942 population of the province, plus (2) 50 per cent of the provincial tax receipts from income and corporation taxes under the wartime taxation agreements, plus (3) the amount of the statutory subsidies payable to the province in 1947. This option was found to be most advantageous to six of the provinces,—Alberta, British Columbia, Manitoba, New Brunswick, Ontario, and Quebec. The second option involved the payment of $15 per capita on the basis of the 1942 population of the province, plus the statutory subsidies. It was intended to apply to those provinces which in 1940 were making only a limited use of the income and corporation tax fields, and consequently was most favorable to Nova Scotia and Saskatchewan. The provinces accepting payments from the Dominion government under the new formula were to agree for a period of five years to refrain from levying income, corporation, and inheritance taxes.

The new formula was designed, Mr. Abbott said, "(a) to meet the fiscal needs of the less favoured provinces by the provision of a relatively large, uniform per capita payment; (b) to meet the representations of various provinces, by continuing the separate payment of the statutory subsidies; and (c) to meet the representations of the more favoured provinces by reflecting in the annual payments, the productivity of the major progressive taxes." He went on to say that the public investment and social security programs set forth in the original proposals of August,

[18] Dominion-Provincial Conference on Reconstruction, *Correspondence since the Budget of 1946 on Matters of Substance Regarding Tax Agreements with the Provinces* (1947), pp. 15–16 and 20, correspondence between Mr. King and Premier Drew of Ontario.

[19] *Ibid.*, pp. 66–67.

1945, still remained the objectives of the Dominion government. But he said that the substantially higher payments now being offered to the provinces would have to be taken into account in working out the details of these programs. He thought that the increases in direct payments offered to the provinces would require corresponding adjustments in the division of costs.

The formula proposed by Mr. Abbott differed in several important respects from the proposals set forth by Mr. Ilsley in his 1946 budget speech. It allowed the provinces (except Prince Edward Island) to choose between two methods of determining the amount of their guaranteed minimum annual payments. These payments to the provinces were increased by approximately $25 millions, reaching a total of $206.5 millions. The guaranteed minima were used as the bases for calculating the actual annual payments, which were adjusted for increases in provincial population and gross national product per capita. In the year following the termination of the agreement, provincial taxpayers were to be allowed tax credits up to 5 per cent of the Dominion income taxes, 50 per cent of Dominion inheritance taxes, and one-seventh of Dominion corporation income taxes in lieu of taxes imposed by their provincial governments.

A rather complicated method was followed in calculating the actual amount payable to each province under the formula in any one year. The minimum payment was adjusted for changes in provincial population and gross national product per capita, as compared with the base year 1942, for each of the three calendar years immediately preceding the fiscal year of payment. These three amounts were then averaged, and the result was the amount payable. If the amount calculated, in any of the three years concerned, was less than the amount of the minimum payment, then the latter amount was substituted. This method of computing the annual payments was intended to insure that the revenues of each province would increase in proportion to its population and gross national product per capita, and that the province would at no time receive less than the guaranteed minimum.

The Tax Rental Agreements of 1947

The final proposals of the Dominion government, as sponsored by Mr. Abbott, were embodied in the Dominion-Provincial Tax Rental Agreements Act, assented to on July 17, 1947. This act set forth the general terms and conditions governing the financial agreements between the Dominion government and the provincial governments accepting the arrangements. It also specified the guaranteed minimum annual payments which the Dominion government pledged to the agree-

ing provinces (as shown in the accompanying Table VIII). Within a few months, seven of the nine provinces had accepted the Dominion's proposals, enacted supporting legislation, and signed agreements. Only Ontario and Quebec had not accepted these proposals.

The future realization of the Dominion government's program for public investment and social welfare has not been advanced nearly as much as one might suppose from the fact that seven of the nine provinces have accepted the tax rental agreements. The seven agreeing provinces are the smaller ones from the standpoint of population, and the poorer producers of national income at the present time. They contain about 37 per cent of the Canadian population, produce about 33 per cent of the net national income, and contribute about 26 per cent of the Dominion's tax revenues. The two nonagreeing provinces have therefore approximately 63 per cent of the total population, produce about 67 per cent of the net national income, and contribute about 74 per cent of the Dominion's tax revenues. Obviously, the seven agreeing provinces are the ones that need the Dominion government's financial assistance the most at the present time. But until Ontario and Quebec join the other provinces, the Dominion government will not be able to implement its broad program, including countercyclical budgeting, as outlined in August, 1945.

The total annual cost of the Dominion government's complete program, involving public investment, social security, and tax and subsidy revision, was estimated at about $600 millions for the Dominion and from $200 to $300 millions for the provinces.[20] The full implementation of the program might therefore increase the Dominion's postwar expenditures by more than a fourth and the provincial expenditures by about a third. But the scope of the program was greatly limited in the final negotiations with the individual provinces which resulted in the tax rental agreements of 1947. For five years the seven agreeing provinces will receive annually from the Dominion government an average of about $90 millions, as compared with a little less than $40 millions paid to them in 1945 as subsidies and as payments under the wartime taxation agreements.

In the negotiations preceding the tax rental agreements, the provincial governments—particularly those of Ontario and Quebec—pressed for certain modifications: they wanted to narrow the Dominion government's jurisdiction with respect to the major taxes and to limit its right to use certain other taxes. Both the Ontario and Quebec governments objected to the exclusive use by the Dominion government of

[20] Estimate made by Opposition Leader Bracken in *House of Commons Debates* (Daily ed.), July 18, 1946, pp. 3660–61.

TABLE VIII

PROVINCIAL CALCULATIONS AND PAYMENTS UNDER THE DOMINION-PROVINCIAL TAX RENTAL AGREEMENTS ACT, 1947.[1] (In millions of dollars)

	Prince Edward Island	Nova Scotia	New Bruns-wick	Quebec	Ontario	Mani-toba	Saskat-chewan	Alberta	British Columbia	Total
FIRST OPTION:										
1. $12.75 per capita on 1942 population	1.1	7.5	5.9	43.2	49.5	9.3	11.3	10.2	11.1	149.1
2. 50 per cent of provincial receipts under wartime tax agreements	.1	.8	1.3	10.3	14.5	2.5	1.1	2.0	6.0	38.6
3. Statutory subsidies	.7	2.0	1.6	2.9	3.2	1.7	2.0	2.0	1.0	17.1
Total	1.9	10.3	8.8	56.4	67.2	13.5	14.4	14.2	18.1	204.8
SECOND OPTION:										
1. $15.00 per capita on 1942 population	1.3	8.9	7.0	50.8	58.3	10.9	13.3	12.0	13.1	175.6
2. Statutory subsidies	.7	2.0	1.6	2.9	3.1	1.7	2.0	2.0	1.0	17.0
Total	2.0	10.9	8.6	53.7	61.4	12.6	15.3	14.0	14.1	192.6
AMOUNT UNDER MOST FAVORABLE OPTION (Guaranteed Minimum Annual Payment)	2.1[2]	10.9	8.8	56.4	67.2	13.5	15.3	14.2	18.1	206.5
ADJUSTED ANNUAL PAYMENT FOR 1947	2.3	12.1	9.5	63.4	74.4	14.5	15.8	15.3	21.4	228.7

[1] Figures taken from tables presented by Finance Minister Abbott in *House of Commons Debates*, July 9, 1947, pp. 5417 and 5418.
[2] Prince Edward Island was a special case, being guaranteed a flat minimum payment of $2.1 millions.

inheritance taxes. They pointed out that these taxes had been developed by the provinces as early as 1892 and that the federal government did not begin to exploit them until 1941. They argued that such taxes were directly related to "property and civil rights," which were matters of exclusive provincial jurisdiction, and furthermore that property was transmitted at death under provincial laws. While the Dominion government thought this argument was without validity, it offered to permit the provinces to remain in the inheritance tax field on certain conditions. If a provincial government continued to impose inheritance taxes, the Dominion government would allow the taxpayers credit for their payments to the province, but would deduct an equivalent amount from its subsidy payments to the provincial government. As it happened, the seven agreeing provinces all discontinued their inheritance taxes for the term of the agreements.

The governments of Ontario and Nova Scotia, in particular, argued that certain taxes constitute suitable sources of provincial revenue, and that the Dominion government ought to withdraw from them. Among these taxes, they mentioned the federal levies on gasoline, electricity, places of amusement and entertainment, and pari-mutuel betting. The Dominion government recognized after a time the reasonableness of this argument, and on April 1, 1947, withdrew from the gasoline tax field, although its three-cents-on-the-gallon tax was one of the most lucrative of the minor taxes. Then in November, 1947, it discontinued the tax on electricity, which had originally been levied as the federal way of reaching and taxing electrical utilities under provincial or municipal ownership. Finally, on May 19, 1948, the federal taxes on amusements and pari-mutuel betting were removed. Thus the Dominion government tried to clear the way on minor taxes for early agreements with Ontario and Quebec.

But some of the agreeing provinces soon became dissatisfied with their arrangements. Early in 1948 the governments of three of the western provinces voiced discontent over the tax rental agreements. The government of British Columbia asked that the Dominion government make immediately available to the seven agreeing provinces the social services and investment features which it had proffered in its proposals of 1945. The provincial minister of finance pointed out that British Columbia's revenues, even with the tax rentals from the Dominion, were insufficient to meet the expanding social needs of the province. The provincial government, he asserted, was therefore compelled, as the only way out, to levy a 3 per cent retail sales tax to bridge the gap.[21] The provincial

[21] Minister of Finance Herbert Anscomb's *Budget Speech*, March 17, 1948, pp. 36 and 41.

treasurers of Manitoba and Saskatchewan also contended that their provinces had acted in good faith in signing the agreements and ought immediately to have the benefits of the Dominion's investment and social welfare programs, which they claimed were needed to help them meet the situations developing in their municipalities.[22]

Arrangements for the Union of Newfoundland

Newfoundland is said to be Britain's oldest colony and the first one to have responsible government. Although its representatives sat with those of the other British North American colonies in the Quebec Conference, it decided not to join the federation when the Dominion of Canada was established. The Newfoundland government, organized in 1855, was suspended in 1933 on account of financial difficulties. A British-appointed commission was authorized to run the Island's governmental affairs until such time as it could resume its dominion status.

The finances and general conditions of Newfoundland had so greatly improved by the end of World War II that steps were taken looking toward a popular referendum to determine the Island's future status. The first referendum was held on June 3, 1948, at which three propositions were submitted to the voters: (1) return to independent status, (2) federation with Canada, and (3) continuation of the Government by Commission. No proposition received a majority vote, but the last one got the smallest vote and consequently was eliminated from further consideration. The second referendum, held on July 22, 1948, gave federation with Canada a majority.[23]

Delegates of the National Convention of Newfoundland had carried on negotiations with the Dominion government for a year or more before the final referendum. As a result of these negotiations, the Dominion government issued a list of "Proposed Arrangements for the Entry of Newfoundland into Confederation" on October 29, 1947. This list covered the status of Newfoundland when, and if, admitted as the tenth province of Canada, the public services to be provided by the Dominion, the financial arrangements between Newfoundland and the Dominion, and other matters. It declared that Newfoundland would have the status of a province of Canada with all the rights, powers, privileges, and responsibilities of existing provinces. The Province of Newfoundland would include the territory of Labrador, as defined by the award of the Judicial Committee of the Privy Council in 1927. The new province

[22] Provincial Treasurer Stuart S. Garson's *Budget Speech,* April 9, 1948, pp. 2–5; and Provincial Treasurer C. N. Fines' *Budget Speech,* February 26, 1948, pp. 16–17.

[23] The final count was 78,323 votes for federation with Canada and 71,334 votes for return to independent status. *House of Commons Debates,* February 7, 1949, p. 285.

would have an area of some 152,000 square miles, about 42,000 square miles of which are in the Island itself, and a total population of about 325,000 inhabitants. It would therefore be larger in area than any of the Maritime provinces—indeed, about three times larger than all of them together—but it would have a smaller population than any of the present provinces except Prince Edward Island.

Following the final referendum, a delegation from Newfoundland arrived in Ottawa early in October, 1948, and began to hold a series of meetings with representatives of the Dominion government. These meetings began as an open session on October 6 and thereafter continued for more than twenty meetings in closed sessions. The "Proposed Arrangements" of October 29, 1947, were modified or elaborated as a result of the negotiations in Ottawa, which were carried on over a period of about two months. Finally, on December 11, 1948, the representatives of both Canada and Newfoundland signed the "Terms of Union of Newfoundland with Canada." These terms became effective on March 31, 1949, the Parliament of Canada, the Government of Newfoundland, and the Parliament of Great Britain having duly approved them before that date.

By the terms of union Newfoundland now has a representation of six members in the Dominion Senate and seven members in the House of Commons. The constitution of Newfoundland, as it existed prior to 1934 when the Commission was established to run the Island's governmental affairs, has been revived, and its provisions made to govern the provincial executive and legislature until such time as it can be amended. A lieutenant governor for the province was appointed immediately after union by the Dominion Governor in Council.

Under the terms of union the public services provided from time to time by the Dominion government for the people of Canada are to be available to the people of Newfoundland. The welfare services currently provided by the Dominion are to be extended to Newfoundland after union. These include family allowances, pensions for the aged and blind, unemployment insurance, sick mariners' benefits for merchant seamen and fishermen, and assistance for housing. At the time of union, or soon thereafter, the Dominion government proposes to take over the Newfoundland Railway and subsidiary services, the postal and telegraphic services, civil aviation (including Gander Airport), customs and excise, defense, pensions and rehabilitation of war veterans and merchant seamen, protection and encouragement of fisheries, geodetic and hydrographic surveys, navigation and shipping aids, and the public radio broadcasting system.

The financial arrangements between the Dominion government and

Newfoundland relate mainly to debt, subsidy, tax agreement, and transitional grants. The Dominion proposes to assume the servicing and retirement of the 3 per cent stock issue guaranteed by Great Britain, and amounting to almost $72 millions. This is said to represent a fair estimate of the amount of debt incurred for purposes which would presumably have been the responsibility of the Dominion government, if Newfoundland had been a province when the debt was incurred. The sinking funds against this portion of the debt, amounting to about $8 millions, are to be taken over by the Dominion. Newfoundland will continue to be liable for the remaining portion of its debt, amounting to about $10 millions (mainly wartime loans), and will retain the sinking funds of less than a million dollars against that portion. The Newfoundland public works and properties taken over by the Dominion government, as noted above, are presumably considered in the nature of an offset for the assumption of part of the Newfoundland debt.

The Dominion government proposes to pay to Newfoundland a statutory annual subsidy computed as follows: (1) $180,000 and 80 cents per head of the population (estimated at 325,000), and (2) $1,100,000 for like purposes as the various fixed annual allowances and subsidies provided by statute from time to time for the Maritime provinces. The first part of this subsidy is for the support of the Newfoundland government and legislature and other local purposes, according to the scale of grants authorized by the 1907 amendment of the British North America Act. The amount payable in the first year of Newfoundland's union with the Dominion is to be the minimum amount payable in any subsequent year. The second part of the subsidy is in recognition of the special problems created for the Island of Newfoundland by geography and a sparse and scattered population.

Newfoundland will be given the opportunity within nine months after union to enter into a tax rental agreement with the Dominion for its income, corporation, and inheritance tax fields on the same basis as the existing agreements with the other provinces, which apply to fiscal years up to and including 1952. Or, if Newfoundland prefers stability of revenue for a longer period, it may extend its agreement to include 1957, regardless of what the other provinces do when their agreements expire. If Newfoundland enters into a tax rental agreement, the annual subsidy noted above is to be included in the computation of the payments by the Dominion government. It is pointed out that this computation would have to rest upon the second option—namely, $15 per capita plus statutory subsidies—and would figure an irreducible minimum annual payment of $6,415,000 ($4,875,000 at $15 per capita and $1,540,000 statutory subsidy).

In order to facilitate the adjustment of Newfoundland to the status of a province and to enable it to develop its revenue-producing services, the Dominion government proposes to pay to Newfoundland each year during the first twelve years of union diminishing "transitional grants." These grants will start at $6,500,000 a year for the first three years, declining thereafter at the rate of $850,000 a year so that in the ninth year the grant would amount to $1,400,000, and declining for the remainder of the period at the rate of $350,000 a year. The transition grants for the twelve-year period would therefore total $42,750,000, as against $26,250,000 originally proposed in October, 1947. The Dominion government proposes to appoint a Royal Commission within eight years after union to review the financial position of Newfoundland. This commission would recommend additional financial aid if it thought that such aid would be required to enable Newfoundland to continue its public services at the levels and standards reached subsequent to the date of union without resorting to more burdensome taxation, considering capacity to pay, than that obtaining generally in the Maritime provinces.

Chapter XI

CANADIAN PROVINCIAL FINANCE

THE PROVINCES of Canada vary widely in area, population, wealth, and natural resources. Prince Edward Island, the smallest province, has an area of only a little more than 2,000 square miles, or about the same as that of the state of Delaware. The other two Maritime provinces, Nova Scotia and New Brunswick, are ten or twelve times larger than Prince Edward Island, but neither one is as large as the state of Maine. Quebec is the largest province, with an area of 594,000 square miles, or about twice the size of the state of Texas. The area of Ontario is about two-thirds that of Quebec; the three Prairie provinces, Manitoba, Saskatchewan, and Alberta, are each about one-half the size of Quebec, while the area of British Columbia is about three-fifths that of Quebec.

Roughly a third of the twelve and a half million Canadians live in Ontario. Somewhat less than another third live in Quebec. The remaining four and a half millions live in the other seven provinces, about a million in the Maritimes, a million in British Columbia, and two and a half millions divided almost equally among the Prairie provinces. The population of the Maritimes has grown very little during the last forty or fifty years; in fact, Prince Edward Island had a smaller population in 1941 by about 14,000 than it had in 1891. The substantial gains in population over the years have been made by Ontario and Quebec. British Columbia, however, has made very rapid gains during and since World War II.

With the exception of the Maritime provinces, the habitable regions of the provinces are limited to a relatively narrow strip along their southern borders. In only one or two places is this strip wider than three hundred miles from north to south. As a matter of fact, the large majority of Canadians live within a hundred miles of the United States. This habitable strip of southern Canada unfortunately is not continuous, but

is broken by two rather formidable barriers—the Laurentian Shield and the Canadian Rockies. The shield, a giant plateau with its thousand miles of rocks, forests, lakes, and wasteland, really separates Canada into two distinct parts. To the east of this barrier, which extends south from Hudson Bay to Lake Superior and Georgian Bay, lives approximately 70 per cent of Canada's population, and it is there that the Dominion's industry, commerce, and finance are centered. To the west lives the other 30 per cent of the population, engaged mainly in agricultural pursuits and extractive enterprises. The Rockies in Canada, being more compressed and rugged than they are in the United States, constitute a more difficult barrier to transportation, and thus tend to cut off British Columbia from the remainder of western Canada.

Canada is not only divided by geography but also by race, language, and religion. Of the twelve and a half million Canadians, about 30 per cent are French, 50 per cent are English, and the remaining 20 per cent are almost entirely from other European races, principally German, Dutch, Polish, and Ukrainian. Most of the French live in Quebec, though there are substantial French minorities in all of the other provinces except British Columbia. Central Canada, with all of its apparent geographical unity, is racially cut in two; Ontario is English and Protestant, while Quebec is controlled by the French Catholics. In Quebec the French maintain their own school system in which the mother tongue is spoken, and the English minority also has its school system. Thus the racial and religious differences are stressed from childhood, and this part of Canada remains permanently bilingual. Indeed French Canada forms a sort of nation within a nation—never seemingly too cordial with its English neighbors—the like of which is not to be found elsewhere in the Western Hemisphere.

This dual nationality of the country is apparent in many governmental practices. Everything of a public nature in the Dominion must be viewed from both the French and English standpoints. Public reports, postage stamps, and paper currency are often printed in both French and English. French is constitutionally recognized as being on a parity with English as an official language of Canada. Both languages are used in the debates of the Dominion Parliament, and in those of the legislature of Quebec, though not in the other provincial legislatures. Most French public officials, however, are bilingual, and look with a measure of contempt upon the monolingual habits of the English.

In spite of these local differences, Canadians on the whole are culturally very much like the people of the United States. They normally feel more at home with Americans than with Englishmen, or Australians, or South Africans. They not only speak the same language, but they even

have a common slang. Their accents and dialects are often so much like those of their neighbors to the south that Canadians are frequently taken for Americans when traveling in other parts of the British Empire. Canadians enjoy the same mass-production methods used by Americans in industry; they use the same standard of monetary value—the dollar, instead of the English pound; they wear the same clothing conveniences, like belts to hold up their trousers; they read American magazines, look at American movies, and listen to American radio programs; they play baseball, the great American game; and they imbibe rye and bourbon, the popular American drinks. Indeed the whole manner of living in Canada is much the same as that in America, but with this one fundamental difference—Canadians very definitely remain British.

Economic Resources of the Provinces

Canada is a vast country, the third largest in area in the world. Only Soviet Russia and China are larger, though the United States plus Alaska covers approximately an equal territory. Canada extends over a wide stretch of the earth's terrain, even greater than the east to west distance across the United States. Halifax is approximately a thousand miles more distant by rail from Vancouver than New York is from San Francisco. Canada has one more time zone than is found in the United States, namely, an eastern zone for the Maritime provinces.

The physical geography of Canada is more diverse than that of the United States, and this diversity is reinforced by the effect of historical development. From east to west there are five distinct regions, some of which extend south into the United States. These regions are the Atlantic maritime, the St. Lawrence valley, the rocky barrier of the Laurentian Shield, the western prairies, and the mountainous Pacific Coast. The maritime region is east of Maine, and is largely separated from the St. Lawrence valley region by the northward thrust of that state. Included in it are the three small Maritime provinces. East of these and across the Gulf of St. Lawrence is Newfoundland, which has become by popular choice the tenth province of Canada. The St. Lawrence valley region extends westward from the Gulf of St. Lawrence to the eastern shores of Lake Huron. The southern parts of Quebec and Ontario are in this valley. North of this region and for a thousand miles to the west is the sparsely inhabited Laurentian Shield, which literally surrounds Hudson Bay like a giant collar. This shield has no counterpart in the United States. The prairie region stretches from the western end of Lake Superior to the Rocky Mountains, and is divided among the provinces of Manitoba, Saskatchewan, and Alberta. It is quite similar to the western plains of the United States. To the west of the Rockies is the Pacific

region, including Vancouver Island, which constitutes the province of British Columbia. To the north of the prairie and Pacific regions and to the east of Alaska is the immense and almost uninhabited area of Canada which is administratively known as the Yukon and the Northwest Territories.

The Natural Resources of Canada

While its natural resources are by no means as varied as those of the United States, Canada is more richly endowed in this respect than perhaps any other British dominion. It has a vast forest area of more than a million square miles, less than half of which has so far been made accessible to commercial operations. Huge quantities of pulpwood, lumber, mining timber, and miscellaneous wood products are produced annually. About half of the paper consumed in the United States is either of Canadian manufacture or is made of wood or woodpulp imported from Canada. Since 1913 Canada has led the world in the production and exportation of newsprint.

While Canada has very little high-grade iron ore [1] and practically no aluminum deposits, it has a great wealth of nonferrous metals, a large part of which is mined in the Laurentian Shield region. It also has moderate deposits of coal and petroleum, found mostly in the maritime and western regions. At the outbreak of World War II, Canada produced about 89 per cent of the world's supply of nickel, about 60 per cent of its supply of asbestos, and an equal proportion of the platinum metals. At the same time Canada's output of copper, lead, zinc, gold, and silver ran around 10 per cent of the world's supply for each of these metals. Greatly extended mining operations were carried on during the war and are in prospect for the postwar period.

Canada still has in its northern regions one of the great fur-bearing animal preserves of the world. These regions include the whole of the Northwest Territories, the northern parts of the Prairie provinces, and

[1] Quite recent discoveries indicate rather extensive high-grade iron deposits in the Steep Rock Lake region of Ontario north of the Mesabi range in Minnesota, and also in the Ungava region of northern Quebec and Labrador. *Fortune* for December, 1948, discussed under the title of "The Great Labrador Venture" the efforts that are being made by Canadian and American capital to open up in the Ungava region what appears to be one of the world's richest bodies of iron ore. This venture will require the development of hydroelectric power near by and the building of about 300 miles of railway through rugged country to bring the iron ore south to the St. Lawrence.

The bituminous sands of northern Alberta have recently been tested and are estimated to have the greatest known oil reserve on the face of the earth. The yield is about one barrel of oil per ton of sand. By the early part of 1949, Alberta's oil wells in the Leduc region were bringing in 45,000 barrels of crude oil a day, or almost enough to meet the daily oil requirements of the Prairie provinces.

extend eastward through northern Ontario and Quebec into the Maritimes. Furs and minerals will probably remain the chief resources of this vast area, since much of it is unsuited to settlement or forestry.

The Dominion has exceptional resources in its fisheries. Besides inland fishing of large proportions, two of the four great sea fishing areas of the globe border on Canada. Great quantities of salmon, cod, lobster, herring, and other varieties of fish are taken annually to supply the markets of the world.

Water power is also one of the chief natural resources of Canada. Much of the fresh water area of Canada, which is larger than that of any other country, is considerably above sea level, so that the rapids and waterfalls of the streams carrying the water to the sea are great sources of potential energy. Canada's potential water power has been estimated at about 43,000,000 h. p., of which some 8,000,000 h. p. had been developed, principally in Ontario and Quebec, at the start of World War II.

Mention should also be made of the immeasurable scenic wealth of Canada, with its stark beauty of almost unsurpassed proportions. "There are awing distances in Canada, vast freedoms, immense silences. There are rushing rivers and lonely, loon-haunted lakes where no angler ever yet cast a lure, silent forests where the moose abounds in Gothic majesty and the lumbering bear has not learned to fear the crack of a rifle." [2]

The Provincial Economies

From the standpoint of wealth, Ontario, with approximately 32 per cent of the population of Canada, produced before the war about 42 per cent of the national income. It had from 45 to 60 per cent of the Dominion's telephones, automobiles, residential electric power consumption, and other evidences of surplus income and higher than average standard of living. The province continues since the war to enjoy a key position in the national economy. It has rich natural resources in the way of mines, forests, and agricultural lands. Its mines contain large deposits of gold, nickel, and copper, with some coal and iron. Vast amounts of timber and pulpwood come from the Ontario forests. The climate and the general character of the soil are said to give Ontario agriculture the greatest diversification and the best balance in Canada. The wealth of this province apparently rests on a well-balanced and closely integrated development of its own natural resources, augmented by its geographical position in relation to the rest of Canada and to the United States.

Quebec is a rather complex economic unit, with diverse regional economies. The metropolitan area around Montreal thrives mainly

[2] John MacCormac, *Canada: America's Problem* (1940), p. 227.

upon trade and industry. In the vast stretches on the north of the St. Lawrence are pulp, paper, and metallurgical plants operated by local hydroelectric power. Agriculture is, however, the basic economy, and the one most characteristic of Quebec as a whole. But it is by no means uniform throughout the province; the farm problems of the Lake St. John area or of the Gaspé region are far different from those of the St. Lawrence valley. The St. Lawrence region produces about half of the total agricultural output of the province, and is the most prosperous farming area because of its general topography and its proximity to the Montreal markets.

The Maritime provinces are said to form the most mature regional economy in Canada. Agriculture, long the basic industry of the Maritimes, goes hand in hand with forest industries and fishing. As in the neighboring state of Maine, farmers often work their wood lots or fish during the winter season. Farm lands are limited, except on fertile Prince Edward Island, to narrow strips or small pockets along river valleys, and as a result farms are often small, and cultivated areas are more or less isolated. Manufacturing industries are concerned mainly with processing local raw materials. A notable exception is the pulp and paper industry recently developed, mainly in New Brunswick. Considerable coal is mined, principally in Nova Scotia, a large part of which is costly to produce since it comes from submarine mines. Both the coal industry and its subsidiary steel manufacturing industry have in the past received extensive aid from the Dominion government in the form of subsidies of one kind or another.

The whole economy of the Prairie provinces depends very largely upon the wheat industry. Before the war this industry had been in a rather precarious position owing to the combined effect of drought and the collapse of wheat prices, which dealt shattering blows to living standards in this area and had a profound effect on provincial and municipal finances. Temporarily the Dominion government had to come to the financial rescue of these provinces, particularly Saskatchewan. The possibilities of overcoming this situation seem to depend largely upon developing some substitute industries for that of growing wheat in this region. Both Manitoba and Alberta are already making good progress in this direction.

British Columbia has rich concentrations of natural resources, frequently separated by large barren areas. Some of its mineral and forest resources are accessibly located, while others are found far in the interior where costly transportation facilities must be provided to reach them. The province has a large nonferrous ore body and many smaller deposits of gold, copper, and coal, extensive stands of Douglas fir on the coast

ranges, rich agricultural lands in the Okanagan Lake region and lower Fraser valley, considerable water power along its rivers, and several fine harbors on its coast. The exploitation of these resources has at times been quite profitable; and has made possible a high standard of living and a high level of governmental services for the province.

PROPOSED UNION OF CERTAIN PROVINCES

The economic and other disabilities which have at times beset some of the Canadian provinces have encouraged the formulation of certain proposals for governmental consolidations. It has been suggested that considerable economy would result from a reduction of provincial units and machinery in the less favored economic areas. By a pooling of economic risks, it has been claimed that some of the provinces might improve their credit standing and thus be enabled to borrow money at lower interest rates. On the other hand, it has been asserted that the political implications and drawbacks would probably outweigh the financial gains in any consolidation.

The merits of consolidation were carefully weighed from an economy standpoint by the Royal Commission on Dominion-Provincial Relations in two proposed instances: the union of the three Maritime provinces and the union of the three Prairie provinces. In the case of the Maritime provinces, the Commission pointed out that the major items of expenditures such as those for education, public welfare, highways, and debt service would remain practically unchanged under a union government. It thought, however, that savings might be effected in the administrative overhead and legislation and, after a time, in the central office costs of consolidated government departments. But it estimated that these possible savings would amount to only a little more than 4 per cent of the total current expenditures of the three provinces, or about three-quarters of a million dollars annually. Even these prospective savings, it thought, might be considerably reduced by increased salaries and traveling expenses for ministers and legislative members under a consolidated government. The credit rating of the Maritime provinces, the Commission asserted, had been such for a long time that little, if any, saving could be expected through consolidation in the interest charges on future borrowings. It was observed that provincial loyalties were deeply rooted in the Maritime provinces because of their longer history as separate provinces. The premiers of each of the Maritime provinces, in appearing before the Commission, declared that they were not in favor of consolidation and expressed the opinion that there was not a great deal of popular support for it.[3]

[3] *Report*, Book II, p. 169.

The Commission was quite certain that there would be some saving in Dominion government costs by a union of the three Maritime provinces into a larger unit. This saving would, however, depend upon the extent to which the existing offices and officials maintained by the Dominion in the three provincial capitals could be replaced by a single set of offices and officials. There undoubtedly would be a saving in the salaries of lieutenant governors and certain other Dominion officials who could assume jurisdiction over the larger area. But the Commission was of the opinion that most of these officials would, for the sake of efficiency and public convenience, be retained in the larger consolidated unit. This qualification, however, seems to lack force, since the combined area of the Maritime provinces would be only about 50,000 square miles, or roughly a fifth of the size of any one of the Prairie provinces, while the total population (no longer growing in one of the provinces) would approximate a million and one hundred thousand, or about a fourth of the population of Ontario.

In the case of the Prairie provinces, the Commission seemed to be more favorably inclined toward consolidation, although it did not mention the fact that the combined area would be vastly greater than that of any existing province, amounting to 750,000 square miles—a region considerably larger than all of Quebec and the three Maritimes put together. A further fact was apparently overlooked, namely, that the Prairie provinces have a growing population which now approximates 2,500,000, with plenty of elbow room for additional population, assuming that the economic structure of the region can be somewhat stabilized. The Commission estimated that a saving of some $2,500,000 could be made in legislative and general administrative expenditures by consolidation. This amount would be equivalent to about 5 per cent of the current expenditures of the three provinces. It was assumed that the expenditures for education, welfare, highways, and debt service would not be substantially reduced by consolidation. These services, the Commission said, "would continue to cost approximately the same for the whole area whether there were one government or three; debt charges would still have to be carried, presumably by the new unit, but in effect by the same people." But the Commission held that it was likely that "the greater economic stability of a larger and more diversified area might improve the credit of the region," and that as bond maturities occurred it was possible for a single province to be able "to refund at lower rates of interest than any one of the three provinces separately." It was suggested that a single legislature might be more frugal since there would be fewer members seeking favors for their constituents; and that the three Prairie universities, now largely supported by provincial grants, might be con-

solidated at a considerable saving. If nothing were done to carry out its financial recommendations with respect to all the provinces, the Commission thought that there would be a strong case for the union of the Prairie provinces on the ground that such a step would improve the general credit standing of the region. By such union, the Commission asserted, "the economic risks of the three provinces would be pooled, and the resulting increase in financial stability for the region would tend to diminish the need of Dominion assistance in times of crop failure." It was suggested, too, that "a single Prairie Province, which would be able to speak in Dominion affairs with one voice on behalf of the whole prairie region, would exercise greater influence in favour of advantageous Dominion policies, and against policies believed to be unfavourable to the interests of the region." While the governments of two Prairie provinces—Manitoba and Saskatchewan—were inclined to be favorable to the idea of union, the Alberta government refused even to appear before the Commission.[4]

Entirely aside from the question of the union of the Maritime provinces or of the Prairie provinces, the Commission recommended the creation of a regional court of appeals in each of the two areas. It said that if sittings were held in succession in each of the provincial capitals, there would be no substantial delay or inconvenience to the public. It thought that a saving of $100,000 a year could be made in this way with a gain, rather than a loss, in efficiency. It also recommended the discontinuance of the quinquennial census taken in the Prairie provinces with an added saving of $100,000 a year.

The General Framework of Provincial Governments

Strikingly enough, the Canadian provinces have no constitutions comparable to those of the American states. Nova Scotia, New Brunswick, Prince Edward Island, and British Columbia came into the federation with their preexisting institutions, so that they may be said to have largely unwritten colonial constitutions. Ontario and Quebec were really created by the British North America Act, some thirty sections of this act being devoted to their governmental structures. The three Prairie provinces, Manitoba, Saskatchewan, and Alberta, were created by Dominion legislation, and may be said to have special written constitutions. No Canadian province, therefore, has drafted its own "constitution" in the manner of the American states. But it makes little difference to a provincial government what the source of its written constitutional provisions may be: the British North America Act gives each provincial legislature the power to amend all provisions except those relating to the office of

[4] *Ibid.*, pp. 167–68.

lieutenant governor. Hence the whole governmental structure of a province can be made over by its legislature, simply by enacting laws to that effect; nothing more is required.

The governments of the nine provinces closely resemble the Dominion government in structure. All provinces, however, have unicameral legislatures except Quebec. From the time of its incorporation in the federation, Ontario had a one-house legislature, and so did British Columbia. Both Alberta and Saskatchewan had single-chambered legislatures when they became provinces. Manitoba abolished its second chamber in 1876, New Brunswick in 1892, and Prince Edward Island merged its second chamber with the assembly in 1893. Nova Scotia finally abolished its legislative council in 1928, after this second chamber with its colonial name had been in existence for 170 years.

The upper house of the Quebec legislature, also called the legislative council instead of the senate, is composed of 24 members appointed for life by the Crown (the provincial government of the day), each member representing one of the Dominion senatorial districts of the province. The two houses of the Quebec legislature have coordinate powers save in the matter of money bills, when they follow the Dominion rule. No provision exists for adjusting differences or for resolving deadlocks between the two houses; fortunately, however, there has been no friction of any consequence.

The nine provincial assemblies vary greatly in size, ranging all the way from 30 members in Prince Edward Island and Nova Scotia to 90 in Ontario. Quebec has 86 assemblymen, making a legislative body of 110 members when added to the 24 councillors in the upper house. The number of members in the other five provincial assemblies ranges from 48 to 57. The assembly of Prince Edward Island is somewhat different from the others in that it consists of 15 councillors and 15 assemblymen, one of each being chosen from each of 15 electoral districts. With the exception already noted—that of the appointive councillors in Quebec—the members of all provincial assemblies are elected by popular vote.[5] The sessional indemnities or salaries of provincial assemblymen and councillors range from $400 per member in Prince Edward Island to $3,000 in Quebec, the average being about $2,000.

The legislative procedure of the provincial assemblies follows quite closely the British precedents. The fiscal powers of these assemblies and the methods followed by them in enacting financial legislation are, in general, quite similar to those of the Dominion House of Commons.

[5] In Prince Edward Island a property holder can vote for both councillor and assemblyman in each district, while a nonproperty holder can vote only for the assemblyman.

Each province has the British type of responsible ministerial government. Executive authority is nominally exercised on behalf of the Crown by the lieutenant governor, who is actually appointed by the Dominion Cabinet for a term of five years, and is paid directly by the Dominion government. His salary varies from $7,000 in Prince Edward Island to $10,000 in Ontario and Quebec. He is nearly always a resident of the province and "is usually an elderly and fairly wealthy retired provincial politician." [6] He is, in effect, the ceremonial head of the provincial government, and concerns himself mainly with such incidentals of administration as signing provincial orders, legislative bills, and formal executive decrees. Like the Governor General of the Dominion for whom he is in effect a provincial lieutenant (hence the name lieutenant governor), he recognizes the primacy of the elected representatives of the people, acting through the provincial cabinet.[7]

Executive authority actually centers in the provincial cabinet, which is composed of the political leaders of the legislature who legally constitute the lieutenant governor's council. By convention, the lieutenant governor acts only on the advice of and through the cabinet, which is responsible to the legislature. The number of cabinet members or ministers varies from seven to sixteen in the nine provinces, the average cabinet consisting of nine or ten ministers depending somewhat upon the size of the province. A minister may have charge of two or more administrative departments, if the departments are small, or he may be a minister without portfolio, that is, without any departmental assignment. Each minister is expected to carry out the will of the cabinet, or council, with respect to the department or departments under his supervision.

A prime minister, or premier, heads each provincial cabinet and is responsible in general for the policies and actions of the other ministers. He is the leader of the majority party or the dominant group in the legislature, and as such chooses his colleagues from the legislative membership for political or administrative reasons. Until defeated in the legislature or at an election, the prime minister and his cabinet run the government of the province. Under this system, there is no incompatibility between executive and legislative authority, as in the American states. The prime minister (comparable to the American governor) as advised by the cabinet is continuously in working harmony with the legislature elected by the people. If a conflict should arise between the

[6] H. McD. Clokie, *Canadian Government and Politics* (1944), p. 197.

[7] It is interesting to note in this connection that the term lieutenant governor sprang from Britain's effort to salvage the Canadian colonies after the wreck caused by the American Revolution. To this end, lieutenant governors were substituted for governors, and the colonies were placed under one governor general. Hence the terminology used today in Canada.

executive and the legislature, it is resolved by the simple method of appealing to the electorate, who decide the fate of both the executive and the legislature at the same time.[8]

The Fiscal Structure of the Provinces

The important administrative agencies concerned with financial and personnel matters in each of the provinces are the treasury board, the treasury or finance department, the comptroller general, the purchasing agent, and the civil service commission or commissioner. These agencies operate either under the cabinet as a whole or under one of the ministers. In addition, there are usually two legislative agencies designed to audit and review the provincial finances—the provincial auditor and the public accounts committee. In most of the provinces these fiscal agencies are organized and operated along much the same general lines as their greater counterparts in the Dominion government. There are some exceptions, however, which will be noted below.

The Treasury Board

The treasury board or fiscal committee of the cabinet in each province is generally composed of three ministers (four ministers in the case of British Columbia). The provincial treasurer (minister of finance in British Columbia) is always a member and usually the chairman of this board. The attorney general, the legal adviser of the government, is ordinarily a member, while the third member may be any other minister. In Quebec, however, the minister of lands and forests is named in the law as a third member of the board. The deputy or assistant treasurer usually serves as secretary to the board.

The treasury board in each province exercises much the same general powers on the provincial level as those of the Dominion Treasury Board. It usually renders decisions or makes regulations on all matters respecting the treasury or finance department and the collection and expenditure of public moneys; it approves methods of accounting and reporting for both the treasury and the operating departments; it reviews the esti-

[8] Yukon and the Northwest Territories operate under territorial governments. Yukon, formerly a district of the Northwest Territories, was made a separate territory in 1898. The chief executive of Yukon, styled commissioner (recently controller), is appointed by the Dominion government (Governor General in Council). There is an elective territorial council of three members, with three-year terms of office. These two agencies serve the territory in the same general capacity as the provincial cabinet and parliament. The seat of government is at Dawson. The Northwest Territories are governed by a commissioner and a council, now composed of six members, appointed by the Dominion government. The seat of the territorial government is at Ottawa, and the various acts, ordinances, and regulations of the government are administered by the Dominion Department of Mines and Resources.

mates for the provincial budget; it often distributes or allocates appropriations during the fiscal year; it approves or disapproves the decisions of the comptroller and the findings of the provincial auditor; it regulates salary and wage scales and the classification and number of provincial employees, and finally it has power to summon and hear witnesses and to demand accounts and documents in making investigations. In short, the treasury board may do almost everything that the cabinet as a whole may do with respect to provincial finances and related matters.

The Treasury or Finance Department

Each province has a treasury department, which is headed by a minister called the provincial treasurer. In British Columbia, however, the Dominion terminology is employed, the department being known as the department of finance and its head as the minister of finance. Each department has a deputy or assistant treasurer, who is as a rule a permanent provincial official and who serves as the administrative director of the department. Often the minister divides his time between the treasury and some other department, since he frequently serves also as premier or provincial secretary.

The functions and organization of the treasury department vary somewhat from one province to another. Ordinarily the department receives the provincial revenues, is custodian of provincial funds, and makes the disbursements of provincial moneys. Often it collects the more important provincial taxes, maintaining a special branch for this purpose. In Quebec, for example, there is a revenue branch in the treasury department, headed by a comptroller of provincial revenue, which collects the taxes on corporations, the gasoline tax, succession duties, taxes on the transfer of securities, and fees from certain licenses and permits. Manitoba has a similar branch. As a rule, the central accounts of each province are maintained in the treasury department. An exception is found in Alberta where the provincial auditor keeps the central accounts. Sometimes there is a controlling and auditing branch in the treasury department which is charged with accounting and preauditing. In both British Columbia and New Brunswick there is such a branch headed by a comptroller general. In addition, British Columbia has an auditor of revenue, an auditor of disbursements, and a purchasing commission in the finance department. The assembly and tabulation of the budget estimates for the provincial treasurer or finance minister are uniformly functions of the treasury staff. The preparation of the annual financial report of the provincial government, called the "public accounts," is a task that ordinarily falls on the accounting branch of the treasury or finance department.

The Purchasing Agency

Following the wide adoption of centralized purchasing in the American states, several Canadian provinces have also made a move in this direction. As early as 1917, British Columbia established the office of purchasing agent in the finance department. This officer continued to function as a central purchasing authority for the provincial government until 1943, when he was displaced by a purchasing commission of three members appointed by the lieutenant governor in council, which continues to operate in the department of finance. This change, it appears, was the direct result of dubious advice given by an American accounting firm. It was designed "to assure efficiency and prevent irregularities in the purchase of supplies," and the commission was made responsible "for the establishment and maintenance of rigid controls over all stores, warehouses, and inventories; the creation of adequate yet economical standards; the acceptance of tenders; the keeping of perpetual inventories; and, finally, the establishment of preaudits wherever and whenever possible." [9]

In 1918 Manitoba established the office of general purchasing agent and set up a purchasing bureau in the department of public works. This office does not buy for all the government agencies. The Manitoba telephone system, a government owned and operated utility, buys independently, and all stationery and printing supplies are furnished by the King's printer in the office of the provincial secretary.

Nova Scotia, in 1926, established a purchasing bureau in the department of public works, which handles the purchasing for all departments, boards, and commissions of the province. The bureau is supervised by a purchasing committee of three departmental officials (deputy heads of departments). The committee arranges for the purchase of all commodities on the basis of competitive bidding, the lowest and best bidder getting each award. The committee is allowed to purchase goods in bulk whenever desirable. The cost of such purchases is met out of an appropriation especially provided for this purpose by the treasury department. As the goods are distributed from time to time to the using agencies, the department is reimbursed for their cost.

Saskatchewan and New Brunswick have purchasing bureaus in their public works departments. These bureaus buy for their own departments and to a limited extent for some of the other departments. In addition, New Brunswick maintains an office for the purchase of school books and other educational supplies. But neither province may be re-

[9] Premier and Minister of Finance John Hart's *Budget Speech*, February 23, 1943, pp. 30–31.

garded as having made very much progress in the direction of centralized purchasing.

Prince Edward Island has a purchasing agent, who buys rather widely for the provincial departments and agencies. In Ontario, the King's printer contracts for printing and other office supplies for all departments. In 1938 Quebec created a director general of purchases, the idea being to develop a system of centralized purchasing for that province.

Provincial Civil Service

By 1944 eight of the nine Canadian provinces had statutory provisions for the establishment of civil service systems, which is a much better showing than has so far been made among the states of the United States. Only Prince Edward Island remained without a civil service agency. New Brunswick and Quebec have civil service commissions of three members each, while the other six provinces have single commissioners. The commissioners are appointed by the lieutenant governor in council and serve during good behavior, except in Saskatchewan where the commissioner's term is seven years.

The civil service agency in each province is authorized to draft regulations with respect to provincial employees, none of which become effective until they have been approved by the lieutenant governor in council. These regulations usually include rules respecting classification of the service, admission to the service, temporary employment, working hours, transfers, absences, leaves, allowances for travel, and miscellaneous matters. Often the regulations are merely restatements and interpretations of the provisions of the provincial civil service acts. These acts usually set forth categories for the classification of personnel. Ordinarily personnel is divided into from four to eight major classes. In New Brunswick, Nova Scotia, and Saskatchewan, for example, there are four main classes: the administrative or deputy minister class, the professional class, the clerical class, and the general class (all the remaining employees). Eligibles are not only selected but appointments are actually made by the civil service agency in British Columbia, New Brunswick, Nova Scotia, Manitoba, and Saskatchewan. In Alberta and Ontario appointments are made by the lieutenant governor in council after certification by the civil service agency and on the recommendation of the departmental head concerned; and in Quebec, appointments are made in the same way, except that the departmental head is permitted to make a selection from the list of eligible persons supplied by the civil service commission. Appointments are usually made for a probationary period of six months, after which a permanent assignment is made. Except in Ontario and Quebec, vacancies are filled by promotion wherever

possible. Employees normally enter the service at the lowest level of a grade and receive the minimum salary for that grade. After a year of service, which is certified as satisfactory by the department head, the civil service agency authorizes an increase to the next salary level, and so on until the maximum salary for the grade is reached. The provinces have introduced superannuation systems under which employees may retire with an annuity, generally at the age of sixty-five.

The provincial civil service systems, in some instances, have been developing over a number of years. British Columbia established its civil service system as early as 1908. A revision of this system in 1936 greatly extended the merit basis and competitive examinations. Saskatchewan provided for its system in 1913, and completely reorganized it in 1934, abolishing the commission of three members and substituting a single commissioner. In recent years efforts have been made to put the Saskatchewan system on a real merit footing. The Manitoba civil service act, adopted in 1918, followed very closely the provisions of the British Columbia act. With some later revision, particularly in 1924, the commissioner has been able to make fair progress in improving the civil service system of Manitoba. Alberta established a civil service commissioner under an act of 1918. A special committee surveyed the salary scales and classifications in 1942, and the Alberta act was revised in 1943 to provide for a new personnel classification. Ontario also instituted a civil service system in 1918, but it has since remained virtually unchanged. Recently the Ontario government announced that it would make an effort to put the provincial service on a merit basis, and thus check the heavy turnover of civil servants with each change of government. Nova Scotia set up a civil service system in 1935, and a professor at Dalhousie University was appointed commissioner. The Nova Scotian system tends toward informal, simple practices, because of the relatively small number of personnel in the province. The civil service systems of New Brunswick and Quebec were both established in 1943, and are still in the process of development. Prince Edward Island has not created a civil service system, since it is claimed that the small size of the provincial services on the Island do not warrant such a system.

Most of the provincial civil service systems are said to be rather well organized. Although the administration of these systems moves at a slow pace, it is on the whole fairly progressive, as is evidenced by recent studies, revisions, and improvements. While political patronage is still in evidence in some of the provinces, it is by no means as rampant as in many of the American states. "In general, the picture is one of widespread adoption of some of the elements of a merit system, without attempting to change all of the traditional personnel practices at a single

stroke. Accompanying these moderate moves, with few if any reversals of trend, are occasional encouraging actions to improve upon the bases already created." [10]

The Provincial Auditor

A confused notion of the proper sphere of auditing seems to prevail in the Canadian provinces which is quite similar to that which existed prior to 1931 in the Dominion government.[11] Five of the provinces—Alberta, Ontario, Prince Edward Island, Quebec, and Saskatchewan—have provincial auditors, all of whom are performing control as well as audit functions. Three other provinces—British Columbia, Manitoba, and New Brunswick—have so-called comptrollers general, who are auditors as well as chief accountants. The position and functions of each of these officers, whether an auditor or a comptroller general, are much the same. Each operates in a dual capacity; that is, he is an administrative officer part of the time and a legislative officer the remainder of the time. Each keeps some form of accounts and is called upon to make administrative decisions; each is then required to make an audit report to the legislature, involving his own accounting entries and his own administrative determinations. There can be little wonder that the audit findings, under these circumstances, are either entirely lacking or seem confused, incomplete, and generally unsatisfactory.

The proper solution to this situation is, of course, for the provinces to adopt a simplification of the system now being followed by the Dominion government. This would require the central accounts for each province to be kept in the treasury or finance department under the direct supervision of a permanent officer—a comptroller—reporting to the provincial treasurer or minister of finance. The audit of the central and departmental accounts and the checking of all provincial revenues and expenditures would then be performed by the provincial auditor, who would have no powers of administrative control but simply those of postaudit. The provincial auditor should, in all cases, be an officer of the legislature, reporting his findings directly to the public accounts committee of that body and keeping no accounts of any kind. In the smaller provinces, it might be more economical and more satisfactory for the postaudit to be made by a firm of public accountants hired for this purpose by the legislature.

[10] Theodore Kraft, "The Civil Services in the Canadian Provinces," *Public Personnel Review*, October, 1944, p. 206. Professor R. MacGregor Dawson asserts that "there is not a single province of Canada which has a genuinely reformed civil service," although he admits that Saskatchewan may be an exception. See his *The Government of Canada* (1947), pp. 568–69.

[11] See above, Chapter VI, pp. 134–35.

The provincial auditor, in each of five provinces, is appointed by the lieutenant governor in council, usually holds office during good behavior, and is ordinarily removable from office only for cause by a vote of the legislature. This arrangement is intended to place him in an independent position where he is free from restraint by the executive in carrying out his duties. He usually has wide powers of audit which extend to all departments and agencies of the province. There are, however, some exceptions, as in the case of the Ontario hydroelectric power commission and the Saskatchewan department of telephones which have their own auditors. The provincial auditor's office is sometimes closely linked, either by law or practice, with the treasury department. In Quebec, he and his staff are by law made an "audit branch" of the treasury department; in Ontario, his office is by practice closely associated with the treasury department. The actual accounts which he is required to maintain vary in the different provinces. In Quebec, he must keep something in the nature of appropriation accounts so that he may exercise control over the issuance of the warrants used in the payment of all moneys from the treasury. In Ontario and Saskatchewan, he is required to keep appropriation accounts and to countersign all checks issued by the treasurer. In Alberta, he keeps the central accounts of the province and issues all checks which are countersigned by the treasurer. As a rule the auditor in each province follows the practice of preauditing all pay rolls, vouchers, and bills when they are offered for payment, a function which normally belongs to a chief accountant or comptroller in the treasury department. He has some responsibility in every province, except Saskatchewan, for the preparation of the annual financial report, called the "public accounts." He is required in Quebec to "examine" this report before it is submitted by the provincial treasurer to the legislature; at the same time, he submits his report as a sort of introduction to the public accounts, commenting briefly upon the financial condition, the accounting, and related matters of the province. According to the Ontario law, he must "prepare and deliver" to the treasurer the annual report on public accounts, which is then laid before the legislature. He is required also to file a report of his own with the legislature. This report contains certain miscellaneous statements, the legal opinions which have been requested or offered concerning funds and other fiscal matters, the overrulings by the treasury board, special warrants issued during the fiscal year, and treasury board minutes for the same period. But it does not contain a summary of his audit findings. In Prince Edward Island, the auditor is required to produce the annual report on the public accounts for the provincial treasurer, which he does without comments of his own relating to his audit. In Alberta, the public accounts report is entirely

the work of the auditor, and as such (although without auditing comments of any kind) is regarded as his report to the legislature. Only in Saskatchewan is the annual report on public accounts wholly the work of the treasury department, its key statements being checked and certified by the auditor. Such comments as the Saskatchewan auditor wishes to make on the accounts and on his auditing work are usually presented in the front matter of the public accounts report.

In the three provinces which have comptrollers general, this officer may be regarded as being merely a provincial auditor with another name. As a matter of fact, the office of provincial auditor in Manitoba simply had its title changed to the office of comptroller general in 1915, following a survey of that office made by an American firm of accountants.[12] Practically the same thing happened in British Columbia in 1917 when the office of provincial auditor was reconstituted as the "controlling and audit branch" of the finance department headed by the comptroller general. The comptroller general is ordinarily appointed in the same manner and with the same tenure of office as in the case of the provincial auditor. He is usually regarded as a permanent officer. However, the comptroller general of Manitoba was dismissed in 1932 by the legislature in connection with the dissipation of university trust funds, and a chartered accountant was selected as his successor in office. Although the office of comptroller general in Manitoba is regarded as a legislative unit, it actually operates under the treasury department. The New Brunswick office of comptroller general constitutes a branch of the treasury department as in British Columbia. The central accounts of the province are ordinarily maintained by the comptroller general, and his office audits all pay rolls, vouchers, and claims before payment. The provincial checks are usually drawn and issued by his office. In every instance, he prepares the annual report on public accounts which is presented to the legislature by the provincial treasurer or minister of finance. This report is not certified to, except in the case of New Brunswick where a firm of chartered accountants is employed to examine and certify to the more important statements. Occasional audits by private accountants have been made in British Columbia during the past twenty years. But the legislatures of British Columbia, Manitoba, and New Brunswick do not regularly receive a report showing the findings of an independent audit of provincial receipts, expenditures, and accounts.

The Nova Scotian arrangement for central accounting, auditing, and reporting, which is different from that of any other province, has some virtues, particularly when applied to a small province. Here the treas-

[12] In this survey the firm exhibited the same confused and improper conception of audit and control functions which still exists in many American state governments.

ury department maintains the central accounts, does the preauditing of pay rolls and bills, and makes all payments. It prepares the annual report on public accounts, which is presented by the provincial treasurer to the legislature. This report is certified to by a firm of chartered accountants which is retained year after year to postaudit all of the accounts of the province. In this way, the legislature is assured that all provincial moneys have been properly accounted for and that the financial books and records of the government are in good order.

Provincial Public Accounts Committees

Each provincial legislature has a public accounts committee which is appointed annually in keeping with Dominion practice. The membership of this committee varies from province to province and from time to time. It ranges all the way from three to three score members. Ordinarily the members on each committee are apportioned according to the relative strength of the various parties or groups in the legislature. Sometimes the places on the committee are divided between the government supporters and their opponents in a fixed ratio. In Prince Edward Island and New Brunswick, for example, the rule has been to assign five out of seven places on the committee to government supporters and the remaining two places to the opposition. Whatever the arrangement, the government of the day controls the committee in each province and designates one of its supporters, sometimes the provincial treasurer, to serve as chairman. Occasionally the meetings of the committee are subject to call by the chairman; hence, if he does not see fit to call the committee together, it may not meet for a whole session. In Alberta, for example, the committee meets only once in three or four years. But in most of the provinces the committee meets annually.

Ordinarily each provincial public accounts committee devotes more time to arguing than to actual investigation. The Saskatchewan committee, which is said to be unusually active in its review of the public accounts each year, is perhaps an exception. As a rule, each committee is seldom able to arrive at any definite findings owing to partisan or other reasons. In Ontario, it has been the practice simply to report to the legislature the testimony taken before the committee without any comments or recommendations. When a report is presented to the legislature in one of the other provinces, it usually consists of a majority and a minority report, for the committee members can rarely agree on the conclusions which may be drawn from any given testimony.

Since each provincial public accounts committee is controlled by the government of the day, it is ordinarily ineffective as an agent of criticism of the way that government's officials handle the provincial moneys.

Indeed, this can be expected so long as cabinet officials, who may be most interested in suppressing an inquiry, are permitted to preside over or control the deliberations of the committee which is supposed to sit in judgment on their administrative acts. Until this situation is remedied by a return to British precedents, it is unlikely that the provincial public accounts committee will function to the advantage of citizens and local taxpayers.

Provincial Budgetary Procedure

In its essentials, budgetary procedure in the provinces may be said to follow quite closely that of the Dominion. The preparation and review of the estimates are very similar; the budget speech, though usually not as elaborate, is along the same general lines; and the consideration and passage of the budget by the provincial legislatures follow the regular pattern set by the House of Commons. Where there are differences in procedure, they are usually the result of variations in financial methods.

One of the most significant of these variations is the lack of uniformity in the fiscal years of the provinces, though this is being corrected in connection with the Dominion-provincial tax rental agreements. Seven of the provinces—Alberta, British Columbia, Manitoba, Ontario, Prince Edward Island, Quebec, and Saskatchewan—now have fiscal years which coincide with that of the Dominion, beginning on April 1 and ending on March 31. In the two remaining provinces, the fiscal year runs from November 1 to October 31 in New Brunswick, and from December 1 to November 30 in Nova Scotia.

The changes which have been made in the provincial fiscal years during recent decades have mostly been in the direction of bringing them into conformity with, or nearer to, the fiscal year of the Dominion. In 1947 the fiscal years of Manitoba and Saskatchewan were each shortened to eleven months to make them coincide with that of the Dominion. At the beginning of 1943, Prince Edward Island extended its fiscal period to fifteen months, so that its fiscal year ended on March 31, 1944, making it uniform thereafter with the Dominion's fiscal year. In 1941, Quebec changed its fiscal year to start on April 1 instead of July 1. In 1935, Ontario shifted the beginning of its fiscal year from November 1 to April 1. Sometime before that Alberta switched its fiscal year from the calendar year to one starting on April 1. Several years ago Manitoba's fiscal year began on December 1; then it was changed to September 1, and again to May 1, and finally in 1947 it was made to conform with the Dominion's fiscal year. In 1935, Nova Scotia changed the beginning of its fiscal year from October 1 to December 1, a shift of two months, with no apparent gain either for the budget or for uniformity.

Since all the provinces receive moneys from the Dominion government in the form of subsidies and recently seven of them have entered into tax rental agreements with that government, it would seem most advantageous from the reporting standpoint if they all had fiscal years which coincided with that of the Dominion. Such uniformity would be exceedingly helpful in the compilation of provincial statistics. It would also enable each provincial legislature (which usually meets in the winter months; ordinarily some time in January or February) to consider the budget and enact the appropriations immediately before the beginning of the fiscal period. This can be done in those provinces which have their fiscal years starting on April 1.

In Nova Scotia and New Brunswick, the budgetary or fiscal period is already in progress when the estimates and budget speech are presented to the legislature, so that the government may actually be operating for as long as four months without the enactment of the budget. This situation is met in Nova Scotia, for example, by the following statutory provisions: [13]

> After the close of a fiscal year, and pending the granting of appropriations for the new year by the Legislature, the Provincial Treasurer may (subject to any restrictions that are at any time imposed by the Governor in Council) authorize the payment of all proper claims for the ordinary and usual services of the several departments of the government. The sum so paid in any fiscal year in respect to any service shall not exceed one half of the sum appropriated for such service in the preceding fiscal year.

The annual appropriation or supply bill which is passed by the legislature some time in March not only approves future spending by the departments as set forth in the estimates, but also ratifies the expenditures already made during the fiscal year up to that point.

The Provincial Estimates

Some two or three months before the opening of the legislative session in each province, the provincial treasurer or finance minister usually requests the various departments and agencies to prepare their estimates of both expenditures and revenues on printed forms. In the course of about a month these estimates (or tentative drafts of them) reach the treasury department, where they are assembled and examined by the treasurer or finance minister, aided by his principal assistants.[14] If the requirements are reasonable and the expenditure increases are adequately explained, the estimates then go before the treasury board

[13] *Acts of Nova Scotia*, 1924, Chapter 15.

[14] Saskatchewan has recently set up a budget bureau and an economic advisory and planning board to do the preliminary work on the estimates.

for discussion and for its recommendations to the cabinet as a whole.[15] As in the case of the Dominion budget, new undertakings and major policies are usually decided by the cabinet or council. Departmental officers are likely to be called to the treasurer's office, or before the treasury board, to explain or revise their estimates. But the estimates as a rule remain intact as prepared by these officers, with perhaps some minor changes, unless special or unforeseen circumstances call for alterations. They are usually printed and ready to be presented to the legislature at the opening of the session.

The expenditure estimates of each province, following the Dominion practice, are grouped under a number of main headings, called votes or resolutions, which are in turn supported by detailed schedules. Only the votes become appropriations, the schedules being largely for informational purposes. Often the votes lack clarity as to the purpose for which they are intended to be spent, since they consist of simply a phrase or sometimes only a single word. The items in the schedules are usually set down more or less at random and without any attempt at a uniform object classification.[16] Such a classification, as pointed out above in the discussion of Dominion estimates, would be helpful for accounting and statistical purposes.

The estimates of Ontario and the western provinces ordinarily set forth both current and capital expenditures with separate totals for each. But Quebec and the Maritime provinces still continue to show in their estimates only the requirements for current expenditures, as was the custom several years ago in all the provinces. Certainly the presentation of both types of expenditure estimates is desirable and at the same time makes for more comprehensive budgeting. The operating requirements of provincial enterprises, such as hydroelectric and telephone systems, are usually omitted from the budget, being financed separately and independently like the government owned enterprises of the Dominion. Saskatchewan, however, does budget the operating expenses of its telephone system in one lump-sum amount and exhibits the capital requirements in a similar amount.

Certain expenditures are fixed by statute in all the provinces and consequently are not voted annually by the legislature. These statutory expenditures are usually set up in the estimates so as to show them sepa-

[15] Ontario has a so-called budget committee which supplements the work of the treasury board. This committee, constituted by order in council, dated December 29, 1933, is composed of the prime minister, attorney general, provincial treasurer, assistant provincial treasurer, controller of revenue, civil service commissioner, and provincial auditor.

[16] Saskatchewan has recently issued a "standard classification" of revenues by sources and expenditures by objects to be applied to the estimates and accounting documents. It is worthy of study by the other provinces.

rately from the expenditures which are to be voted. The legislative debate is ordinarily confined to the latter group, which in some provinces is greatly limited, being less than 50 per cent of the total. Interest on the provincial debt and sinking fund charges are examples of statutory votes or, as they are called in the United States, permanent appropriations.

All provinces make use of supplementary estimates, which are usually voted toward the end of the fiscal year to which they apply. In some instances, as during the drought period in the Prairie provinces, these estimates have run into large totals, almost equaling the regular estimates. But ordinarily they are kept within 10 per cent, sometimes much less, of the total regular estimates. Nevertheless, the practice of relying on supplementary estimates to finish the financing of each year's services, even when conditions are not entirely normal, is not to be commended.[17]

The Budget Speech

The budget speech is delivered to the legislature by the provincial treasurer or finance minister. The time of its delivery varies from one province to another. In the Maritime provinces, it is usually presented in February or March and relates to the financing of the fiscal year then in progress. In Quebec it has been presented recently during February or March (although January or even as early as November are not uncommon dates) and applies to the financing of the fiscal year starting on April 1.[18] In Ontario, Alberta, and British Columbia, the budget speech is usually given somewhere between the middle of February and the middle of March, and relates to the financing of the fiscal year starting on April 1. In Manitoba and Saskatchewan, now that the fiscal year has been changed to begin on April 1, it is presented any time from the middle of February to the middle of April.

In most of the provinces the budget speech of the treasurer or finance minister generally covers the operations of three fiscal years, the past year, the current year, and the year for which the estimates are being presented. The speech is a running report on both the financial condition and the economic position of the province. The treasurer or minister usually dwells at some length on the available revenues, the departmental requirements, the provincial enterprises or undertakings, and the indebtedness of the province. He deals not only with the finances of the province but he also discusses the business, industry, and agriculture of the region. He pictures to the legislature the general prospects of the year

[17] See above, discussion of supplementary estimates in the Dominion government, pp. 67–68.

[18] In 1945 the budget speech was given on April 5, after the fiscal year had begun.

to be budgeted, he explains the means by which the government intends to meet the proposed expenditures, and he may announce the imposition of new taxes or changes in existing taxes. Often considerable tabular matter is prepared and appended to the speech in its printed form.

The revenue estimates of each province (sometimes printed with the expenditure estimates) as set forth in the budget speech are not always very accurate. There are times when the estimates and the actual collections vary widely. This is frequently, though not always, due to faulty estimating. On some occasions rapidly changing conditions may upset the best of estimates. A comparison has been made in Nova Scotia of the revenue estimates with the actual collections for a period of twelve fiscal years between 1925 and 1937 inclusive, which shows that the actual collections have varied all the way from approximately 81 to 109 per cent of the estimates.[19] The actual revenues of five of the twelve years were overestimated, four of the years rather extravagantly, that is, by percentages ranging from 6 to 19 per cent. Something like compensating reductions in expenditures happened in only two of those years. When the revenues fell 19 per cent below the estimates for 1925, the expenditures were allowed to go more than 6 per cent above the estimates, thus creating a deficit equivalent to about one-fourth of the total budget. If the data were available, the Nova Scotian experience would probably prove to be more favorable from the standpoint of a balanced budget than that of some of the other provinces during the same period. All of which goes to show that provincial estimating of revenues is in general rather poor, but nevertheless superior to that of a majority of the American states.

The Budget in the Legislature

For the consideration of the budget estimates, the legislature of each province (the lower house of this body in Quebec) resolves itself into a committee of the whole. This committee, when considering the expenditure estimates, is called the committee of supply. It usually discusses in detail each item of these estimates before taking up a vote. After an item has been read by the chairman, it is customary for the minister in charge of the department which makes the expenditure to rise and explain the need for it. Any member of the legislature can then question the minister relative to the item. After each item of a vote has been approved by the committee, the chairman then puts the resolution for the vote as a whole. There may be further discussion at this point on the vote before the resolution is finally agreed to. And so it goes

[19] W. F. Lougheed and W. C. MacKenzie, *Provincial Finance in Nova Scotia* (1940), p. 56.

from vote to vote until the resolutions confirming the votes have all been adopted. Usually each department has from four to a dozen votes, depending upon the breakdown of the estimates. Supplementary estimates clear through the committee of supply in the same manner as the regular estimates. The statutory or mandatory expenditures are authorized once for all and the legislature merely takes note of them in this connection.

According to the British custom, all expenditure estimates are recommended by the government or cabinet of the province, which assumes full responsibility for them. The legislature, in committee of supply, may reduce or strike out items, but it may not increase or attach any conditions to a grant. The resolutions of the committee, being evidence of approval of the expenditure estimates, are reported by the chairman to the legislature and by leave read twice and agreed to. But they are not yet adopted until they have gone through the committee of ways and means, which is also a committee of the whole.

The legislature, upon a motion of the provincial treasurer or finance minister (ordinarily just before the delivery of the budget speech), resolves itself into a committee of ways and means. The function of this committee is twofold: to authorize the withdrawal of moneys from the consolidated revenue fund and to provide ways and means of financing. Although the resolutions of the committee of supply have sanctioned the proposed expenditures as set forth in the estimates and authorized grants to be made to meet these expenditures, this action does not enable the government to use the moneys in the consolidated revenue fund. The committee of ways and means must, by resolution, authorize the withdrawal of moneys from the consolidated fund in order to provide for the expenditures which have been approved in the form of votes by the committee of supply. This is intended to give a double check on all expenditure proposals, though oftentimes it amounts to little more than a mere formality. The more important work of the committee of ways and means is the adjustment of the revenues to the expenditures, which often involves increases in the sources of revenue.

On the basis of the decisions arrived at in committee of the whole, the annual supply or appropriation bill is drawn up. As soon as this is done, the provincial treasurer or finance minister by leave of the legislature presents the bill, in which are embodied the resolutions of the committee of ways and means and the schedules setting forth the details of the votes passed by the committee of supply. The bill, ordinarily consisting of only four or five pages, is received by the legislature and passed like any other bill. The lieutenant governor thereupon gives the royal assent to the bill and it becomes a law. In some provinces there may be as many

as three appropriation bills, one each for current, capital, and supplementary appropriations.

Expenditures without Previous Legislative Sanction

In each province the government has the power to issue special warrants to meet expenditures which have not been previously authorized by the legislature. These warrants are similar to the Governor General's warrants of the Dominion. They are issued when the legislature is not in session and are intended to be used to provide for emergency or unforeseen expenditures. But they are also used to provide additional expenditures where appropriations are insufficient. In the latter case they are known in Ontario as "treasury board minutes," the term special warrants being applied only to provisions for unforeseen or emergency expenditures.

The procedure ordinarily prescribed for the issuance of special warrants in each province follows a common pattern. Any minister may make application in writing on behalf of his department to the provincial treasurer or finance minister for the issuance of such a warrant, stating clearly and concisely the urgency and the need for it. If the latter is satisfied with the reasons given, he recommends to the lieutenant governor in council that the warrant be issued. The recommendation goes before the executive council for consideration and, if approved, an order in council is passed and signed by the lieutenant governor, and this then becomes the special warrant. Copies of this warrant are issued to the department concerned and to the provincial auditor, while the original is retained in the treasury or finance department. Usually it is the duty of the provincial auditor to report to the legislature on all special warrants which have been issued during the year and to give the amount and purpose of each. In some provinces this report is embodied in the "public accounts."

The use of special warrants has at times been abused in some of the provinces. Unless restricted entirely to emergency purposes, the issue of such warrants makes it a comparatively simple matter to overexpend appropriations in any given year. Ordinarily, if the executive council desires to spend money for some object which the legislature has not authorized, it may do so by special warrant on the ground that such expenditure is "urgently and immediately required for the common good." This wide latitude in the phrasing of the law leaves the matter entirely in the hands of the provincial council, which can consequently build up a case for almost any special expenditure. A restraining influence upon such action is, however, often exercised by the mere existence of a vigorous opposition party in the provincial legislature.

Provincial Accounting Control

Provincial accounting, as a rule, is not as well developed as Dominion accounting since the improvements of 1931. In some of the provinces, accounting represents a curious mixture of antique and modern practices. It is not very well centralized in any of the provinces; a large volume of departmental accounting, not altogether necessary, is still being carried on. The information produced by the provincial accounts varies greatly both as to character and detail, and there is little or no uniformity as between the provinces.

This situation has made the compilation of financial statistics for the provinces a difficult task. Although the Dominion Bureau of Statistics attempted to introduce some uniformity in provincial reporting as early as 1933, it has made very little progress.[20] When the Royal Commission on Dominion-Provincial Relations came to prepare its comparative statistics of Dominion and provincial finance in 1939, it reported that the provincial governments "revealed a complete lack of uniformity in accounting methods." Most of these governments, it said,[21]

> report financial statistics by departments, having in mind ministerial responsibility; the work of departments varies between governments and a departmental classification is valueless for comparative purposes. There is no uniform classification of revenue or expenditure under income or capital accounts; certain governments report on a cash basis, others use the accrual system, and some a combination of both methods. There is the further difficulty of different fiscal year ends. . . . In many instances the fiscal years of subsidiary enterprises do not coincide with those of the related governments.

There are certain features which are more or less common to all the provinces in connection with the collection and custody of revenues and receipts. In several provinces the bulk of the revenues is collected by the treasury or finance department. But in every instance many smaller sources of revenue are collected by the other departments and later turned over to the treasury. These sources are usually controlled by the issuance of receipts and by the requirement of certain records and reports. Where the amount of the collections warrants it, deposits are often made daily to the credit of the provincial treasurer. The banks where the

[20] A so-called "continuing committee" was appointed at the 1943 and 1945 Dominion-provincial conferences to make recommendations on uniform statistical and accounting methods for the provinces. Up to September, 1947, no recommendations had been agreed upon by the committee.

[21] Royal Commission on Dominion-Provincial Relations, Appendix 1 to *Report*, p. 2. The Dominion and seven provinces now have fiscal years ending March 31; the other two provinces have fiscal years ending on October 31 and November 30 of the previous calendar year. These two are likely to accept the uniform fiscal year under the Dominion-provincial tax rental agreements.

collections are deposited are designated by the lieutenant governor in council and are generally located in the districts where the moneys are received. Statements of the deposits are ordinarily transmitted to the treasury by both the depositing department and the receiving bank, thus enabling the treasury to check continuously on the amount of money which it has available for disbursement. Summary reports of all revenues collected by the departments are usually required by the treasury department at least once a month. The revenue accounts are generally kept on a cash basis, although in some of the provinces a few of the major sources of revenue are accrued on the treasury books. The provincial auditor is usually responsible for checking the receipts from revenues in the course of which he looks into the departmental records and accounts to make certain that all moneys due the province are being collected.

In keeping with the Dominion practice, each provincial treasury ordinarily carries its revenues and receipts in a single fund called the consolidated revenue fund. This arrangement makes for flexibility in budgeting and for simplicity in accounting. Any required segregation of moneys within this fund is accomplished by setting up separate accounts. Some provinces have apparently been influenced by American state practice to the point of departing from this simple rule of a single fund and have in effect set up one or more special funds. Nova Scotia, for example, has a highway fund and a fire prevention fund, both of which receive moneys from special taxes and from government subsidies. The consolidated revenue fund ordinarily has two main accounts—current and capital. The current account is made up of several controlling accounts, one or more for each department or agency of the government. The capital account generally relates to permanent improvements or property acquisitions and has as its chief source of receipts the proceeds from the sale of bonds and other securities.

While the disbursements of a province are usually made by the treasury or finance department, the general accounting and preauditing work is sometimes not under this department. In Alberta, for example, the provincial auditor, as noted earlier in this chapter, has charge of both the accounting and preauditing, even to the extent of writing the disbursement checks which are countersigned by the treasurer. In making disbursements, Quebec still clings to the letter of credit system which was discarded by the Dominion in 1931. Under this system no payment may be made by the province except in accordance with a warrant issued upon the certificate of the provincial auditor that legislative authority exists for the expenditure. The warrant thus issued is signed by the lieutenant governor or one of his deputies; it is drawn upon the pro-

vincial treasurer, whose department at once places the specified amount to the credit of the particular department or service mentioned in the warrant. When this amount is expended, the department or service must apply for a new credit and the procedure is repeated. The disbursement procedure in the other provinces is more direct. Vouchers, supported by pay rolls, contracts, orders, and bills, are audited by a central office (usually in connection with the treasury or finance department) and, if found correct and in accordance with the appropriations from which the claims are to be paid, checks are then issued for payment. The preauditing is sometimes followed by a second check or postaudit made either by the provincial auditor or by chartered accountants. In Nova Scotia, for example, the executive council requires the accounts of the province to be audited annually by a private firm of chartered accountants. In some cases provincial utilities, such as telephone and hydroelectric projects, are permitted to make their own disbursements, but their vouchers are usually subjected to an audit by the provincial auditor.

Each province publishes an annual report of its finances which is known as the *Public Accounts.* The financial statements of this report are usually audited or checked for accuracy. The most important of these statements are the balance sheet and the consolidated fund statement. On the whole they are somewhat comparable to similar statements produced by the Dominion government. They are usually followed by voluminous and detailed items, classified by departments and agencies, setting forth sources of revenue and objects of expenditure. It is questionable whether so much detailed matter, often poorly assembled and improperly classified, is of any particular value from the standpoint of public information. Except in one or two provinces, the public accounts committee of the legislature appears to make little or no use of the annual financial report.

Provincial Revenues

The chief sources of provincial revenues are taxes and licenses, profits from liquor control, receipts from public domain, and subsidies from the Dominion government. For the provincial fiscal years ended nearest to December 31, 1940, these sources and aggregate amounts for all of the provinces are shown in Table IX. Although later figures of provincial revenues are available, the 1940 figures are the latest which were unaffected by the operation of the Dominion-provincial taxation agreements of 1942; indeed, the 1940 figures were used as the basis of reference for these agreements. An additional column shows the corresponding amounts for 1945, and indicates clearly the effect of the taxation agreements which were still in force at that time.

TABLE IX. PROVINCIAL REVENUES, 1940 and 1945

Sources of Revenue	1940 Amounts (In millions)	1945 Amounts (In millions)
Corporation taxes	$ 57.5	$ .9
Personal income taxes	15.7	.4
Mining profits taxes	3.4	—[1]
Succession duties	22.5	25.2
Gasoline taxes	56.7	58.1
Motor vehicle licenses	29.8	31.8
Sales taxes	13.7	20.8
Licenses, permits, fees, etc.	9.0	12.4
Real property taxes	6.7	5.6
Amusement taxes	3.1	6.7
Other taxes	3.3	10.2
Total taxes and licenses	221.4	172.1
Profits from liquor control	36.2	99.7
Receipts from public domain	24.6	40.3
Dominion subsidies	19.2	154.9
School lands and common school funds interest	1.8	—[2]
Other current revenues	3.6	40.9
Grand total	$306.8[3]	$507.9[4]

Provinces	1945 Amounts (In millions)	Percentage of Total for 1945
Prince Edward Island	$ 2.9	.6
Nova Scotia	24.4	4.8
New Brunswick	19.4	3.9
Quebec	137.6	26.7
Ontario	159.7	31.5
Manitoba	28.3	5.6
Saskatchewan	41.6	8.2
Alberta	40.6	8.1
British Columbia	53.4	10.6
Total	$507.9	100.0

[1] Included in "Other taxes."
[2] Included in "Other current revenues."
[3] Figures compiled by the Dominion Department of Finance. The 1940 figures compiled by the Dominion Bureau of Statistics aggregated $348 millions for ordinary revenues and $355.3 millions for total gross revenues for all provinces.
[4] The 1945 figures, called "gross ordinary revenue," were compiled by the Dominion Bureau of Statistics.

The corporation taxes of the provinces, prior to the Dominion-provincial taxation agreements of 1942 temporarily suspending these taxes, consisted of "a bewildering assortment of levies." [22] Not only the tax rate but the tax base for a given class of corporations varied widely from province to province. In many instances the tax imposed was a compound of two or more differently based levies. In other words, provincial corporation taxes were sometimes based on net income, sometimes on capital, and sometimes on classes of corporations.[23] Among the classes of corporations which were specially taxed were insurance companies, railways, banks, gas and electric companies, and telephone companies. The taxation of corporations, however, was never quite as chaotic at any time in the Canadian provinces as in the American states.

Personal income taxes, prior to their wartime suspension by the Dominion-provincial taxation agreements of 1942, were levied by all the provinces except New Brunswick and Nova Scotia (however, in these two provinces, and also in Quebec, such taxes were levied by many of the municipalities). As a rule, provincial income taxes on individuals were levied according to more or less uniform regulations (that is, uniform with those of the Dominion), so that it was possible for the Dominion government to collect these taxes for several of the provinces. As a matter of fact, when the personal income taxes were temporarily suspended in the provinces for the duration of the war, the Dominion government by mutual arrangement was collecting these taxes for four of the provinces—Ontario, Manitoba, Prince Edward Island, and Quebec. It undertook this work for Ontario in 1936, for Manitoba and Prince Edward Island in 1938, and for Quebec in 1940.[24] In speaking of the close similarity between the essential provisions of the provincial income tax laws and those of the Dominion income tax law, which facilitated Dominion collection of provincial taxes, C. F. Elliott, erstwhile Dominion Deputy Minister for Taxation, said, "We have one return to one administration, one tax and one statement of the tax payable to satisfy dual jurisdictions. The collections are received by one Dominion authority for all jurisdictions, and redistributed to them. There is but one form on which to supply 'information from the source' to one Dominion government. The results are eminently satisfactory to all con-

[22] William H. Wynne, "The Taxation of Corporations in Canada," *Bulletin of the National Tax Association*, January, 1942, p. 101.

[23] Since the taxation agreements have expired, Ontario imposes a corporation tax (a) on paid-up capital at one-twentieth of 1 per cent, (b) on net income at 7 per cent, and (c) on numbers of places of business in province at $50 each.

[24] In Quebec the income tax differed from that of the other provinces in that it imposed a flat levy of 15 per cent on the amount of the tax payable by an individual to the Dominion.

cerned."[25] Following the war, the seven provinces which entered into tax rental agreements with the Dominion temporarily gave up their right to levy personal income taxes. Up to 1949, the other two provinces—Ontario and Quebec—had not seen fit to reimpose personal income taxes.

Prior to the tax rental agreements of 1947 between the Dominion government and seven of the provinces, succession duties were collected on inheritances in all provinces. Now they are collected only by Ontario and Quebec. These duties in Ontario, for example, are a tax on persons and on property, subject to certain specified exemptions, and are imposed by reason of benefits accruing to beneficiaries on death or conferred during the lifetime of the decedent. The rates depend upon the aggregate value of the estate, the relationship of the deceased to the beneficiary, and the amount passing to each beneficiary. Early in 1945, an agreement was reached between Ontario and Quebec for the purpose of avoiding double taxation where the deceased was domiciled in one province, but died leaving property in the other. In such case, the province of domicile makes an allowance for the tax paid on the property in the other province, subject to certain limitations. In 1946 Ontario extended relief from double taxation to all estates within its borders by granting such allowance for tax paid to any other Canadian province or British jurisdiction, and to all the states of the United States. This relief is granted regardless of reciprocation by the other jurisdiction.

All provinces levy a tax on gasoline, which has become one of the most productive of the provincial taxes. When the Dominion government retired from the gasoline tax field in 1947, most of the provinces immediately raised their rates (which had been fixed during the war period) the full amount of the discontinued federal tax of 3 cents a gallon. In the Maritime provinces the gasoline tax rate (1948) is 13 cents a gallon; in Ontario and Quebec, 11 cents a gallon; and in the western provinces, 9 or 10 cents a gallon.[26] When gasoline is used by tractors, fishing boats, or the like, the tax paid is refunded except in Alberta and British Columbia, where a partial refund is made.

Motor vehicle licenses constitute a substantial source of revenue in each of the provinces. Recently some of the provinces have adopted sales taxes. Quebec has a retail sales tax of 2 per cent on sales of 10 cents and over, with certain exemptions applying mainly to food, meals, beer, tobacco, agricultural products and implements, fishery apparatus, and

[25] C. Fraser Elliott, "Contrasts in Tax Policy of Canada and the United States," *Taxes* (The Tax Magazine), January, 1939, p. 51.

[26] These tax rates, however, are not as steep as they would appear to Americans, since the Imperial gallon is one-fifth larger than the U. S. gallon. In terms of the latter the tax in the Maritimes is 10⅚ cents; in Ontario and Quebec, 9⅙ cents; and in the western provinces, 7½ to 8⅓ cents.

doctors' prescriptions.[27] Amusement taxes are levied on all forms of amusement by all provinces with the exception of Ontario and Saskatchewan. In Quebec, in addition to a tax on amusements, there is a levy on meals in hotels and restaurants, the receipts of which form a trust fund for public charities. Quebec, New Brunswick, and Prince Edward Island have a tobacco tax of 10 per cent on the retail sale price. Several of the provinces tax mining profits. Real property is ordinarily taxed in some measure by all provinces, except Quebec.

All provinces make large profits from the sale of liquor under government control or supervision. Receipts from the public domain amount to a considerable sum in each of the provinces except Prince Edward Island, which is without a public domain. Subsidies from the Dominion government form a substantial part of the income of each province.[28]

Provincial Expenditures

The current expenses and debt charges (excluding capital expenditures) of all the provinces for the fiscal years ended nearest to December 31, 1940, are shown by expenditure objects in Table X. An added column shows comparable figures for 1945. These expenditure figures are also shown for each province with corresponding per capitas. The 1940 figures were largely unaffected by subsequent wartime conditions.

The per capita operating costs of all the provincial governments rose between 1940 and 1945 from $22 to $30, as shown in Table X. This increase, however, was not uniform among the several provinces. While the governments of the Maritime provinces were the cheapest on the per capita basis in 1940, they were near the total per capita level in 1945. The Prairie provinces declined, with the exception of Saskatchewan, to considerably below this level in 1945, having been very near it in 1940. Ontario and Quebec kept about the same relative position with respect to the per capita level, Quebec pulling up a little in 1945. British Columbia had the costliest government in both years, though it did not stand as far above the total per capita level in 1945 as in 1940.

Debt charges constituted the second largest item of provincial expense in 1940, and continued at about the same level in 1945. These charges increased rapidly after 1929, owing to the fact that the total provincial debt was approximately doubled during the depression years. The interest costs of some of the provincial governments doubled, or even trebled, during the 1930's—notably those of Quebec and Saskatchewan.

[27] This tax was suspended by Quebec's National Union Government in April, 1945. See Onésime Gagnon, Provincial Treasurer, *Budget Speech,* April 5, 1945, p. 35. The sales tax was evidently restored a year later. Following Quebec, Saskatchewan and British Columbia also adopted retail sales taxes.

[28] These are discussed in the previous chapter.

TABLE X. PROVINCIAL EXPENDITURES, 1940 and 1945

Expenditure Objects	1940 Amounts (In millions)	1945 Amounts (In millions)
Debt charges, less interest received	$ 59.6	$ 73.0[1]
Public welfare	65.2	82.9
Education	36.5	71.3
Highways, bridges, and ferries	31.1	53.7
Agriculture	6.4	13.8
Public domain	15.0	22.7
General government	18.7	19.9
Justice (courts)	12.3	17.2
Legislation	2.3	4.2
Grants to municipalities in lieu of taxation	3.1	—[2]
Other expenses	5.3	9.6
Total current expenses and debt charges	$255.5[3]	$368.3[4]

Provinces	Amounts (In millions) 1940	1945	Per Capita 1940	1945
Prince Edward Island	$ 1.7	$ 2.8	$18	$30
Nova Scotia	10.8	18.0	19	29
New Brunswick	8.9	15.1	18	32
Quebec	61.3	102.5	19	29
Ontario	88.4	124.7	23	31
Manitoba	15.6	17.0	21	23
Saskatchewan	22.7	28.2	25	33
Alberta	16.0	21.8	20	26
British Columbia	30.1	38.2	36	40
Total	$255.5	$368.3	$22	$30

[1] Of this amount $16 millions was for debt retirement, leaving $57 millions interest and other debt charges.
[2] Included in "Other expenses."
[3] Figures compiled by the Dominion Department of Finance. The 1940 figures compiled by the Dominion Bureau of Statistics are considerably higher, aggregating $317.4 millions for ordinary expenditures and $330.9 millions for all expenditures of the provinces.
[4] Net ordinary expenditure figures compiled by the Dominion Bureau of Statistics.

The Alberta government resorted in 1936 to a reduction in the contractual rate of interest on its bonds by 50 per cent, and at the same time failed to redeem those bonds falling due between the summers of 1936 and 1945 when a refunding agreement was finally made with the bondholders.[29]

Public welfare expenditures other than relief (including old age pen-

[29] See below, pp. 293–96.

sions, hospitals, asylums, public health, and sanitation measures) practically doubled in volume during the depression years. Old age pensions, which constituted a major item even in 1940, had been adopted between 1927 and 1936 by all the provinces. The number of persons over seventy not only increased, but there was also an increase in the proportion of this group who were unable to support themselves. Although a desirable service for the government to perform, old age pensions, when conducted on the existing basis, are open to serious abuses, according to the Royal Commission on Dominion-Provincial Relations, and such abuses may have far-reaching and quite unexpected effects on the family and social structure.[30] It was not contemplated, when the old age pension system was introduced in 1927, that within a little more than a decade half the population over seventy would be receiving its benefits. The transfer of the cost of this particular service very largely from the municipalities to the Dominion government, thus relieving the municipalities of the necessity of providing homes for the aged and poor relief on the same scale as before, is only one aspect of a general trend of great significance for the provincial and local units. The improvement of public health methods and facilities has also increased the welfare costs, since the people who require attention are likely to be the ones who can least afford it.

Direct relief expenditures were negligible before 1930. But under the impact of the depression they rose to a peak of about $150 millions in 1934 and again in 1937, the provincial governments bearing about half of this burden and the Dominion government and municipalities the other half. Although the war effort had greatly augmented employment throughout Canada, it was assumed that unemployment, in some degree, was likely to be a permanent condition. In view of this possibility, the Royal Commission of Dominion-Provincial Relations recommended that unemployment relief (for employables) should be a Dominion function.[31]

Expenditures for education, which had uniformly increased from the beginning of the century, bore the brunt of depression retrenchment and were reduced by about a sixth. Since the local units pay more than three-quarters of the cost of education, the most severe cuts in educational expenditures occurred in the depressed areas. In order to maintain the educational standards, it was necessary for the provinces to step up their expenditures, which some of them, notably the Prairie provinces, were unable to do. The per capita cost of education in Saskatchewan, for example, declined from $14.80 in 1930 to $8.72 in 1937.

[30] *Report,* Book I, p. 208.
[31] *Ibid.,* Book II, p. 24.

Expenditures for highways and other transportation facilities constitute a rather big item in provincial costs. Large sums have been spent in recent years by the various provinces on the construction of highways in an effort to provide the residents with better travel facilities and to encourage tourist traffic from the United States. Since it has not been possible to charge the full cost of these facilities, or even the maintenance expenses, directly to the users, the provinces have had to assume a large part of them.

The other items of provincial expenditures require little comment. The agricultural expenditures are relatively small in all the provinces, except in Quebec and Saskatchewan, where they amount to about $1.50 and $1.30 per capita, respectively. The public domain of the provinces pays its expenditures out of its receipts with a 10 per cent margin in favor of the latter. The expenditures for general government, justice, and legislation vary considerably from province to province. General government, for example, runs as low as 80 cents per capita in Ontario and as high as $4.60 in British Columbia.

Enterprises Owned by the Provinces

The provinces own a number of enterprises, the operating costs of which are not ordinarily included in the total of provincial expenditures. As already noted, these enterprises are often budgeted separately and their financial operations are not included in the general accounts. Sometimes they earn a profit, as in the case of the liquor dispensing systems, which goes into the consolidated revenue fund. But often contributions have to be made from this fund to the operation and maintenance of the enterprises. The more common of the provincial enterprises, aside from the liquor control boards, are the power commissions, dispensing hydro- and steam-electric power to the communities; the telephone departments, operating provincial telephone systems; and the farm loan boards, maintaining systems of farm credit, particularly in the Prairie provinces. Alberta has recently gone into the banking and insurance businesses in an effort to implement the monetary creed of the Social Credit party inside the province.

The most notable of the provincial enterprises is the Ontario hydroelectric system, a pioneer in the Canadian field. The legal foundation of this system was laid by a 1906 statute, when the administration of the system was placed under a commission, the chairman of which was a member of the provincial government. For twenty years, or until the time of his death in 1925, Sir Adam Beck was chairman of the commission and the one person who most influenced the future development of the system. During this period he sought to reduce to a minimum

government control over the commission, and to make that body, as director of the enterprise and trustee for the municipalities, as autonomous as possible. He succeeded in enlarging the financial freedom of the commission, and removed it from the ordinary checks imposed on the regular departments of the government. The provincial auditor, for example, at first audited the system's books, an arrangement which proved unsatisfactory to Beck. In 1916 a special auditor was provided for the commission, and this arrangement has continued to the present time. During World War I the commission's strict accounting to the legislature underwent considerable change. The commission obtained payments merely on the requisition of the chairman, while it ceased to pay over its receipts to the provincial treasurer. It applied its income to operating expenses and the maintenance of reserves, and only the moneys received on sinking fund account and earnings thereon were invested in provincial securities and turned over to the provincial treasurer. Under a 1917 law, the commission obtained authority to issue bonds for any purpose within its jurisdiction, and to enter into contracts in acquiring the electrical properties of private companies. At the same time, the provincial government pledged itself to guarantee the bonds and the performance of the contracts of the commission, as well as any loans obtained by the commission from banks. Under this arrangement, the provincial government is still "the banker, providing the money for all important extensions, but in no close way endeavoring to scrutinize the internal management of the commission in its expenditures, and offering guarantees to support the commission's credit without requiring the approval of the legislature." [32]

Provincial Debt

At the close of 1943, the provincial debt in the aggregate was approximately as shown in Table XI. This table also shows the total net indebtedness distributed among the several provinces and the per capita debt burden for each province.

During the decade of the 1930's the total provincial debt was practically doubled; however, all provinces did not increase their debt at the same rate. In the four western provinces the rate of increase, owing to previously existing heavy debt burdens, was much slower than in the other provinces. British Columbia added less than 45 per cent to its debt, while some of the other western provinces added up to about 70 per cent. Ontario practically doubled its debt, while Nova Scotia more

[32] Alexander Brady, "The Ontario Hydro-Electric Power Commission," *The Canadian Journal of Economics and Political Science,* August, 1936, p. 337. This article contains an interesting résumé of the political criticisms to which the commission has been subjected.

than doubled its debt. New Brunswick almost trebled its debt, and Prince Edward Island and Quebec ran over the trebled mark. Prince Edward Island and Quebec, however, are still considerably below the per capita debt level of approximately $174 for all provinces. The provinces which exceed this level are New Brunswick, Ontario, Saskatchewan, Alberta, and British Columbia.

TABLE XI. PROVINCIAL DEBT, 1943

Character	Amounts (In millions)
Gross direct debt	$2,049.7
Guaranteed debt	189.2
Total indebtedness	2,238.9
Less sinking funds	187.6
Total net indebtedness	$2,051.3 [1]

Provinces	Total Net Indebtedness (In millions)	Per Capita
Prince Edward Island	$ 9.3	$102
Nova Scotia	91.8	151
New Brunswick	95.6	206
Quebec	400.7	116
Ontario	789.6	201
Manitoba	109.7	151
Saskatchewan	213.5	253
Alberta	178.7	225
British Columbia	162.4	180
Total net indebtedness	$2,051.3	$174

[1] From *Comparative Statistics of Public Finance 1933–1943*, Dominion of Canada, Provinces and Municipalities, Dominion-Provincial Conference on Reconstruction, August 6, 1945.

Prince Edward Island has been exceedingly conservative in its debt policy, owing perhaps more than anything else to an early experience when it became practically bankrupt through railway expansion before its entry into the federation. But this position was somewhat altered during the depression by the province's highway and relief work program, when the net interest charges of the province more than doubled. Borrowing, however, has been done at relatively advantageous rates, and the provincial debt position is unusually strong. The sinking fund is well maintained; the outstanding bonds are payable entirely in Canadian currency, and the maturities are evenly spaced.

Three-quarters of the more than 100 per cent increase in Nova Scotia's debt during the 1930's was due to highway expenditures, and the remaining quarter to current deficits, including direct relief. The average rate of interest paid by the province on its loans is rather high. Recent borrowings at more favorable rates have brought the average coupon rate below 4 per cent, but no refunding of the major portion of the high coupon debt will be possible for some time. The debt maturities are fairly evenly spaced up to 1952. Nearly half of the debt is optionally payable in other than Canadian currency and is of relatively long term.

In New Brunswick large expenditures have been made from borrowings, mainly for public works, in an effort to strengthen the provincial economy which has been hampered by serious disabilities. These expenditures are reported to have failed in stimulating provincial income and taxable capacity to any significant degree. The rapid expansion of its debt during the depression years, coupled with a considerable amount of dead-weight debt, has raised the province's per capita indebtedness considerably above that of the other provinces. Almost one-half of New Brunswick's debt is optionally payable in other than Canadian currency. Four-fifths of its bonds, bearing 4½ per cent or higher interest rates, will not mature for six or eight years, the result being that there is little prospect of any saving at an earlier date from refunding.

Since the municipal debt burden per capita of Quebec is some 50 per cent above the Canadian level, the rapid increase in the provincial debt level owing to the tripling of the debt during the depression has become a matter of some concern. Only a little more than one-third of this increase was invested in tangible assets, mainly highways; the other two-thirds were spent for relief, poor loans, and current deficits. The previous high credit standing of the province permitted borrowing on favorable terms and, owing in part to this and in part to the issue of shorter-term securities, the average interest rate on outstanding bonds was reduced by about 1 per cent between 1929 and 1937. Practically all the borrowing during this period was in Canadian currency.

Almost one-half of Ontario's debt, mostly represented by bonds of the hydroelectric power commission, is directly self-supporting. The interest rate on the provincial debt is relatively high (about 4 per cent) because of heavy borrowings at the high rates prevailing in the early 1920's and again in the early 1930's. But $100 millions of the 4½ per cent and higher coupon rate debt matured in 1942 and 1943, and nearly two-thirds of such debt will mature by 1950. Maturities are fairly evenly spread, as a result in part of a number of serial issues which make up about 30 per cent of the outstanding debt. Sinking fund provisions for the remainder of the debt, however, are relatively small. A little more

than one-half of the Ontario debt is payable only in Canadian currency.

Manitoba's debt increase during the depression was almost entirely due to relief costs, all capital expenditures being drastically curtailed. While the province's credit weakness prevented it from making any economies through debt refunding, new borrowings were secured from the Dominion on 3 per cent treasury bills. Practically all the 6 per cent bonds of the province matured by 1947, but the major portion of the 4½, 5, and 5½ per cent bonds does not mature until sometime in the 1950's. Two-thirds of the debt is optionally payable in currencies other than that of Canada. As a result the interest charges are rigid and influenced by exchange movements.

Saskatchewan's borrowings from the Dominion for relief purposes up to 1937 were greater than the total provincial debt in 1929. The bulk of this new debt consisted of treasury bills sold to the Dominion at artificially favorable rates, and the interest on these bills was paid by further issues of treasury bills. The special write-offs which the Dominion has made on certain of its loans to Saskatchewan, the capitalization of interest due the Dominion, and the assumption by the Dominion of the total costs of relief in the drought area all indicate that Saskatchewan's debt is considered to be in a special category, not to be appraised by conventional data. More than one-half of the province's funded debt is in optional payment securities and two-thirds of the 4½ per cent and higher coupon bonds do not mature until the 1950's or later. The average rate of interest is about 4.5 per cent, and the per capita debt burden of Saskatchewan is the highest of any province.

British Columbia has borrowed from the Dominion on 3 per cent treasury bills practically all of the net increase in its debt since 1933, but some borrowing, largely for refunding purposes, has also been done at 3 and 3½ per cent. There has also been some reduction in recent years in the outstanding provincial debt payable abroad, but nearly four-fifths of the funded debt is still payable in other than Canadian currency. Nearly half of the provincial debt bearing 4½ per cent or higher coupons matures by 1950. There were particularly large maturities in 1941, against which the government maintained sufficient cash balances and sinking funds to enable it to refund on advantageous terms.

Alberta's Debt Situation

Between April, 1936, and June, 1945—a period of more than nine years—the Alberta provincial government defaulted on the payment of its bonds. At the end of this period, it had defaulted on over $34 millions, or something like a third of its bonded indebtedness. However, it continued to pay interest at one-half the coupon rate on the defaulted bonds.

At the same time it reduced the interest payments on the balance of its long-term debt to one-half of the coupon rate, which ranged from 4 to 6 per cent. During the period of default, it accumulated a floating debt of $28 millions, about $26 millions of which it borrowed from the Dominion government on 3 per cent treasury bills.

The Alberta default goes back almost to the beginning of the Social Credit régime under William Aberhart. It was contended by Mr. Aberhart and his cabinet that the economic conditions in the province were such in 1936 that it was financially impossible for the provincial government to maintain even a minimum of services and, at the same time, continue to meet the full contractual rates of interest on its bonded indebtedness. The total debt service, it was said, absorbed at that time more than 50 per cent of the entire provincial revenue, interest alone amounting to over 46 per cent. In May, 1936, an order of the lieutenant governor in council was passed empowering the provincial treasurer to offer to pay the interest on the province's bonds at 50 per cent of the contract rate, with a minimum of 2 per cent. Immediately an Alberta bondholders' committee was formed which conducted an examination of the province's financial position and on the basis of its findings refused the proffered cut in interest. But the provincial government proceeded to have legislation passed to carry out the order in council. This legislation was later declared *ultra vires* by the supreme court of Alberta, by the Supreme Court of Canada, and by the Privy Council in London.[33]

Protracted negotiations were carried on over nine years between the province and the Alberta bondholders' committee in an effort to work out a refunding plan. Many proposals were formulated and discussed, but without any success until the spring of 1945 when the Manning Government began earnestly to try to negotiate a settlement of the debt situation. Premier Manning sought the help of the Dominion government which was promised under certain conditions. In his budget speech of March 9, 1945, he proposed to settle the default by refunding all outstanding bonds with new 3½ per cent bonds due in thirty-three years, regardless of the 4, 5, and 6 per cent rates on the outstanding issues. He proposed interest payments in cash, estimated at $8.4 millions, to the bondholders, or about one-third of the unpaid back interest.[34]

[33] A number of other statutes were enacted during the years 1936 to 1941, dealing with such matters as the enforcement, reduction, and readjustment of debts, limitation of actions, mortgages, taxation, banking, and other financial transactions. Many of these statutes were held invalid by the courts or were disallowed by the Dominion government.

[34] Ernest C. Manning, Premier and Provincial Treasurer, *Budget Speech*, March 9, 1945, pp. 18–21.

Dominion Finance Minister Ilsley thereupon made public a letter to Mr. Manning, dated March 3, 1945, setting forth the results of previous conversations between these two officials, and offering financial aid to the province on the condition that full liability for all unpaid interest would be recognized. He said that this was necessary if he was to justify to the Dominion Parliament a proposed recommendation involving retroactive amendments to the taxation agreement of 1942 between the Dominion and Alberta. Furthermore, he declared that the Dominion government could not endorse a debt reorganization plan which failed to observe the law and the constitution as laid down by Canada's highest judicial authorities. Mr. Ilsley also insisted, as a second feature, upon recognition of the coupon rate differentials in the refunding. As a third feature, he called for full taxation of any speculative profits in Alberta bonds after negotiations were undertaken. Contrasting Mr. Manning's proposals with his plan of full recognition of the provincial debt obligations with Dominion assistance in paying them, Mr. Ilsley showed that there would be little, if any, additional cost to the province. He urged a fair and equitable settlement not only in the interest of full restoration of Alberta's credit standing, but also because of its effect upon the credit of adjoining provinces and all other governments in Canada.

> On grounds of financial cost alone [Mr. Ilsley said in his letter], I have no doubt that the plan I have suggested is the preferable one from the point of view of the selfish interest of your province. On more general grounds the argument is even more powerful. In these days when billions of dollars worth of government bonds are held by millions of persons, many of whom are persons of small or modest incomes who have never before bought securities, it is of vital importance to establish and maintain the faith of the people in the pledged word of governments. I would like the public to have complete assurance that when any Canadian government gives its promise to pay it will abide by its undertakings. If we can establish that assurance, all governments should be able to borrow whatever they may require on more favorable terms.

Mr. Manning and his cabinet later concurred in Mr. Ilsley's view and set about the preparation of a debt reorganization plan for the province. A financial advisor and consultant from New York was engaged to work out the details of this plan, which was agreed to by the Alberta bondholders' committee. The plan was authorized by the provincial government on July 17, 1945, and within a few weeks thereafter extensive and successful refunding operations were undertaken in the United States. The plan arranged for meeting substantially all of the arrears in interest, paying in cash the principal amount of all matured securities, and exchanging unmatured securities for new serial 3½ per cent bonds, dated June 1, 1945, and maturing from 1961 to 1980. To facilitate this refunding operation, Mr. Ilsley introduced and put through the Dominion

Parliament the necessary legislation to amend retroactively the taxation agreement of 1942 with the province, substituting the debt option (calculated on the basis of interest at contractual rates) for the tax option provision of the agreement. An additional provision was also made for payment to the province of an interim subsidy of \$600,000 per annum for the years 1937 to 1940 inclusive. This subsidy had been recommended in 1936 or 1937 by the Bank of Canada, as a result of an investigation of the economic conditions prevailing in the western provinces. But it was not paid to Alberta at that time by the Dominion government, because the province was not paying full interest on its bonds.

As the Alberta debt reorganization plan finally worked out, the province received from the Dominion government \$6,987,733.20, being the aggregate amount by which the payments under the debt service option exceeded the payments under the tax option for the four years ended in 1945; and, in addition, the subsidy noted above, amounting in the aggregate to \$2,400,000. In effect, the Alberta government was permitted to take the debt service option under the taxation agreement of 1942, which gave it considerably more money from the Dominion government, but which it could not accept in 1942 because it was not paying the contractual rates of interest on its debt. To prevent speculation in the Alberta bonds during the debt negotiations, the Dominion government imposed a 100 per cent tax on the profits made from these bonds purchased between January 31, 1945, and August 7, 1945.[35] In order to complete the refunding of its debt, the Alberta government needed in addition to the funds supplied by the Dominion some \$29.5 millions of cash, which was obtained by the sale of the new serial 3½ per cent bonds, the bulk of them being sold in the United States.

Guaranteed Debt of the Provinces

Like the Dominion government, the provincial governments have guaranteed numerous bonds and loans made in connection with railways and other utilities, certain business enterprises, municipalities, and other organizations. These guarantees in the aggregate amounted to about \$175 millions in 1945. Ontario had guaranteed about 67 per cent of this amount, and the other provinces the remaining 33 per cent.

Nova Scotia has made a number of guarantees to banks on behalf of municipalities. It has also assumed contingent liabilities for the fruit growers' finance corporation, Inverness mines, and exhibition bonds. New Brunswick has guaranteed bonds and loans for railways, municipalities, a cooperative creamery company, a cold storage company, and a

[35] See J. L. Ilsley's Budget Speech of October 12, 1945, in *House of Commons Debates*, p. 1045.

hospital. Quebec has guaranteed debentures and loans for municipalities, hospitals, educational institutions, a bridge corporation, a cooperative association, and sundry minor purposes.

Ontario has guaranteed bonds for railways, parks, universities, school boards, cooperative associations, the power commission, and general debentures for municipalities, including housing loans. Manitoba has guaranteed bonds for railways and municipalities. Saskatchewan has pledged the credit of the province for railways, agricultural interests, drainage projects, power developments, and educational extensions. Alberta has guaranteed bonds and bank credit for irrigation and drainage districts, the university, cooperative credit societies, hail insurance, and minor enterprises. British Columbia has provincial guarantees outstanding for railways, sewerage and drainage districts, dyking districts, and agricultural credit.

Chapter XII

CANADIAN MUNICIPAL FINANCE

CANADIAN municipal government is almost wholly a development of the past century. It did not begin to evolve until about 1840 under the leadership and encouragement of Lord Sydenham, the first governor of United Canada. Although the cities of Montreal and Quebec were incorporated in 1832, their charters were suspended four years later because of rebellious uprisings and were not reinstated until 1840. Toronto, now Canada's second largest city, was created out of the Town of York in 1834.

At the first session of the legislature of United Canada in 1841, a Municipal Act was passed looking toward local self-government. Under this act, which was quite limited in its scope, the control of local government was still retained by the central authorities. Actually the first laws for the establishment of municipal government were the so-called Baldwin Municipal Act of 1849 for Upper Canada and the Lower Canada Municipal Roads Act of 1855. These two laws provided for the beginnings of workable local institutions in the areas which later became the provinces of Ontario and Quebec.

Although Halifax was incorporated under a special act in 1841, the Maritime provinces did not develop local self-government until after Dominion federation.[1] In Nova Scotia local government was vested in the magistracy, which was an appointed body, holding office for life and not responsible in any way to the electorate. Indeed, it was not until the passage of the Towns Incorporation Act of 1888 that local self-government was actually accorded to Nova Scotian municipalities, though the Municipal Act of 1879 had required the compulsory incorporation of counties as rural municipalities. New Brunswick's municipal

[1] St. John, N. B., however, is said to have been incorporated as early as 1785, under special circumstances, thus becoming the oldest chartered municipality in Canada.

institutions passed through similar stages of development. Its Act of 1877, providing for compulsory municipal incorporation, is substantially in effect at the present time. In Manitoba, it was not until 1900, by the terms of the General Municipal Act, that each city, town, village, and rural municipality in the province became a corporate body. Municipal organizations were instituted in Saskatchewan and Alberta after 1905, although there had been a few municipal units in the area while it was still under territorial supervision. The development of municipal government in British Columbia followed its entry into the federation in 1871, though Victoria was incorporated as a city in 1862.

Local self-government was not an original right of either the French or English settlers in Canada in the way it was of the American colonists. Before the introduction of responsible government in Canada in the 1840's, local administration by locally elected officers was more or less discouraged. Even following this period, as indicated above, locally controlled institutions developed very slowly. A complete system of municipal organization, except in Ontario and Quebec, was not attained until some time after federation, and then only as a result of provincial authorization.

Canadian municipal government is not founded on the constitutional or legal theory of home rule, or so-called local rights, in the American sense. There are, as a matter of fact, no constitutional provisions on the subject. The constitutions of the provinces, in so far as they are of a statutory character, contain no references to the rights of cities or other local areas. The British North America Act disposes of the matter very briefly in Section 92, defining provincial jurisdiction, by merely stating that such jurisdiction includes "municipal institutions in the province." The control of local government within each province is thus placed entirely in the hands of the provincial legislature, without any constitutional directives.

"Municipalities" in Canada

The term "municipalities" is ordinarily used in Canada to include all types of local governmental units. According to British rather than American practice, these units are roughly divided into two groups, urban and rural, depending largely on population density. The urban units consist of villages, towns, and cities which are often separated from the larger rural areas. The creation or designation of these urban units is either dependent upon local choice or determined by statutory classification set up by each provincial legislature. There is no general agreement as to what distinguishes one type of urban unit from another. Villages and towns presumably grow into cities, as their size or density of popu-

lation increases. But no two provinces seem to agree as to when they may become cities. In Alberta the minimum population for a city is 5,000; in Quebec, 6,000; in Manitoba, 10,000; and in Ontario, 15,000. But in British Columbia seven of its thirty-three cities have a population of less than 1,000, and there are three villages which exceed eight cities of the province in population.

The rural units consist of what are called counties in the eastern provinces and rural municipalities or districts in the western provinces. There are 152 counties, or their equivalents, in the four eastern provinces (Nova Scotia, New Brunswick, Quebec, and Ontario) and 588 rural municipalities or districts in the four western provinces (Manitoba, Saskatchewan, Alberta, and British Columbia). In these larger rural units there may be smaller governmental divisions, such as villages in most provinces (Prince Edward Island and Nova Scotia excepted), towns in all provinces except British Columbia, parishes in Quebec and New Brunswick, and townships in Ontario and Quebec. Often the smaller divisions, particularly in the eastern provinces, are functionally more significant from the governmental standpoint than the larger rural units.

In only two provinces—Ontario and Quebec—do the counties represent what may be termed self-governing units. Ontario has 38 and Quebec 76 counties, not including 5 in the former province which are united with adjacent counties for purposes of administration. The counties in these two provinces are, as a matter of fact, simply incorporated municipalities. In Ontario, the counties consist of the various towns, villages, and townships (but not the cities and seven separated towns) which occupy contiguous areas in the southern or organized portion of the province. There are 670 such units united in the counties for the administration of interrelated functions, such as highways, welfare, and some phases of education and justice. In Quebec, the counties are composed of the rural municipalities, which are the villages, parishes, and townships; the urban municipalities, that is, the cities and towns, are excluded. There are also a few rural municipalities in Quebec which are independent of the counties. In both Ontario and Quebec the local units which comprise each county provide the necessary funds to carry on the services that fall within the scope of county administration. Although the term "county" is applied to each of the major local units in both Nova Scotia and New Brunswick, these units are basically rural municipalities and are administratively so operated. Nova Scotia has 18 such units, 12 of which consist of single municipalities and 6 of 2 municipalities each, making a total of 24 rural municipalities.[2] New Brunswick has 15

[2] The Nova Scotian counties with two municipalities are administered as two separate districts, the boundaries of which coincide with those of the municipalities.

counties, each of which is in itself an incorporated rural municipality.

Extensive areas of the Canadian provinces except in Nova Scotia and New Brunswick are still locally unorganized, which tends to reduce the cost of local administration, much to the advantage of the inhabitants of these areas. The most extreme case is that of British Columbia, in which only about one-half of 1 per cent of the area (containing, however, approximately 75 per cent of the population) has been municipally organized.[3] This situation has been referred to as "a striking illustration of the localization of resources and the physical peculiarities of that province." Prince Edward Island, on the other hand, because of its small area and population, has set up very little municipal machinery. It has only eight incorporated urban municipalities (one city and seven towns), while the remainder of the province, containing three-quarters of the population, is administered directly by the provincial government, except for school districts.[4] In Ontario, the sparsely settled northern area is unorganized (except for a number of cities and towns), being simply divided into eleven unincorporated districts for purposes of provincial administration. A portion of northern Quebec is divided into four territories for provincial administration. The unorganized territory in Manitoba, Saskatchewan, and Alberta is divided into local districts, which are administered and taxed for local purposes by the provincial government. The American states have not pursued this idea of unorganized territory to the extent that many of them might profitably have done so from the standpoint of fewer and self-sustaining local units. Only Maine has such a territory in its northern forest area.

According to the latest count, there are 3,966 local governmental units in Canada, of which 113 are cities, 494 are towns (none in British Columbia), 1,065 are villages (none in Prince Edward Island and Nova Scotia), 114 are counties (only in Quebec and Ontario), and 2,180 are other rural municipalities (none in Prince Edward Island). These figures include five "suburban municipalities" around Winnipeg, but exclude about 330 local improvement districts (areas which have not yet become rural municipalities) in the unorganized northern areas of Saskatchewan and Alberta.[5] About 23,000 school districts are also excluded.

[3] The cities, villages, and districts (rural municipalities) of British Columbia include 1,658 square miles of the total land area of the province, which is 359,279 square miles.

[4] H. Carl Goldenberg, *Municipal Finance in Canada.* A Study Prepared for the Royal Commission on Dominion-Provincial Relations, pp. 11–25.

[5] *The Canada Year Book,* 1947, p. 987. As compared with these figures, there are 46,537 local government units in the United States (3,050 counties; 16,220 incorporated municipalities; 18,919 towns and townships; and 8,299 other local units). In addition there are 108,579 school districts, making a grand total of 155,116 local units. See *Governmental Units in the U. S., 1942,* Bureau of the Census, p. 9.

The cities, towns, and villages of Canada, according to the 1941 census, contained about 54 per cent of the Canadian population. Although the 1921 census had shown a slight percentage in favor of the strictly rural population, the urban population of Canada has, as a matter of fact, been rapidly gaining on the rural population since the turn of the century. By 1941, 43 per cent of Canada's inhabitants lived in its 152 cities and towns of 5,000 or more population. Montreal, the largest city, has a population of nearly a million; but by counting its satellite areas, it has a metropolitan population equal to about one-tenth of the total population of Canada. Toronto has a population of over a half million, and a metropolitan population of 900,000. Six other cities—Vancouver, Winnipeg, Hamilton, Ottawa, Quebec, and Windsor—have populations ranging between 100,000 and 500,000.

The larger metropolitan areas of Canada are more or less overburdened with governmental units which, as in the United States, often bear very little relation to geographic, economic, or political requirements. Although there are a few Canadian cities that do not have this problem, notably Calgary and Edmonton, there are twelve principal cities in which it is especially prevalent.[6] In eight of these twelve metropolitan areas, where the major city had a population in 1941 of over 100,000, there are 108 separate governmental units, 22 of which are in Greater Montreal alone. This lack of unity is due either to the persistence of separate contiguous towns or cities long after they have become one metropolitan neighborhood, or to the tendency of growing urban centers to overflow into surrounding rural areas in which satellite towns and other suburban units are established. Such conditions, as a matter of fact, result largely from the failure of political organization to keep pace with rapidly changing business and industrial development. Progress in the unification of metropolitan government in Canada, as in the United States, has been a slow and difficult process.

A striking feature of Canadian municipal organization (and one which tends to generate fiscal difficulties) is the growing number of so-called special districts, that is, quasi-governmental units, set up ordinarily for a single function. They may be smaller, identical with, or larger than, the regular municipal units; they may include several municipalities or parts of municipalities. In Nova Scotia, for example, the so-called counties are subdivided into poor districts, health districts, and fire districts, which are more or less independent of the municipal councils but which receive a share of the municipally-raised revenue. In Manitoba

[6] These are Halifax, N. S., St. John, N. B., Montreal and Quebec, Que., Hamilton, London, Ottawa, Toronto, and Windsor, Ont., Winnipeg, Man., Vancouver and Victoria, B. C.

there are water and sewage districts adjacent to and including Winnipeg, and park and local improvement districts extending to several of the rural municipalities. Saskatchewan and Alberta have hospital districts, rural telephone areas, and drainage and irrigation districts. In British Columbia there are water districts around and including Vancouver and Victoria. While many of these special districts are sometimes needed in metropolitan areas, the general tendency in Canada, as in the United States, is to set up too many and thereby greatly complicate local organization and finance.

Finally, there are some 23,000 local school districts in Canada, which in the rural areas are usually much smaller than the municipal units. Popularly elected boards ordinarily administer the school districts in each province. In Quebec, and to some extent in other provinces where there is a large French element in the population, the schools are organized under two distinct systems, one Catholic and the other Protestant. Each system has its school districts and corresponding school boards; although the school districts usually overlap each other, the individual supporters or patrons of each system are separate and distinct, and the board members of the overlapping districts are elected by their respective patrons. As a rule the school boards operate as separate governmental entities, entirely independent of the municipal councils except in financial matters. And even in these matters the boards have considerable latitude. In Ontario, for example, while each school board is required to advise the council of the amounts required for current purposes during each year, the council must levy taxes in the sum demanded by the board and cannot amend the board's estimates. The proper municipal officer then lays and collects the taxes for the board, and the board handles its own disbursements and expense accounting. However, when the school board requires money for capital expenditures to be raised by borrowing, it must make application to the council to issue and sell the bonds. The council may grant or refuse the request, except in the case of rural school boards. If the council refuses to issue the bonds, the board may then require the council to submit its request to the voters who support the type of school involved. If the voters approve the request, the council has no choice but to issue the bonds and turn the money over to the school board. In the case of rural school boards, if the loan has been sanctioned at a special meeting of the taxpayers concerned, the council must grant the request. In Ontario, the Catholic school boards, usually called separate school boards to distinguish them from the Protestant or public school boards, often issue and pay their own bonds without reference to the municipal council. All of the school taxes for operational purposes, which are paid by self-designated separate school sup-

porters in Ontario, must be turned over by the municipal authorities to the separate school boards.

Municipal Organization, Administration, and Supervision

Except in the counties of Ontario and Quebec, the local government authorities consist of elected councils, each headed by a mayor in the cities and towns, and by an officer, usually called a reeve or overseer, in the villages and rural municipalities. The councils are elected annually in most municipalities, though in some instances they are elected biennially or even quadrennially. While the members of the council are often elected by wards, the mayor or reeve is usually elected by the whole community.

The qualifications for municipal suffrage vary widely from one section of the country to another. In some municipalities, notably Lethbridge, only real property owners are entitled to vote, while in other municipalities as in Winnipeg, complete adult franchise is in vogue. But the general tendency has been to restrict voting to property owners, tenants, rate payers, or poll tax payers. In the Ontario municipalities, for example, the franchise is exercised by all adults who are British subjects and who own property or pay rent, including members of their families over twenty-one years of age.

The mayor, and often the reeve, is ordinarily a salaried official. He is supposed to give a considerable part of his time to his official duties. He is the presiding officer of the council, and is a member of the more important local boards (except the school board). But such power and influence as he has in many municipalities is based not on legal authority but on personal prestige. In general his powers are not as important as those of the American mayor, nor are they as inconsequential as those of the English mayor. As in Britain, governmental responsibility is, in the last analysis, lodged in the local council. The powers which the council may exercise vary according to the classification of the municipality. In general the greater the population the wider the range of powers. Thus the council of a city has much wider powers than that of a town.

The county councils in Ontario are composed of the reeves and sometimes the deputy reeves of the towns, villages, and townships within each county, the members of each council choosing annually from among their number a chairman called a warden.[7] The county councils in Quebec consist of the mayors of all rural municipalities situated within the county, and each council elects a head called a warden in English or

[7] There are also seven separated towns in Ontario which, like the twenty-two cities, do not form part of the county in which they are located, but which still retain town status.

a *préfet* in French. The organizational arrangement of the county in these two provinces serves to avoid too many local elections, and to coordinate the administrative functions of the constituent local units of the county. The expenses of each county council are met by the component municipalities ordinarily in proportion to the valuation of their taxable real property.

Many innovations or departures from the strictly English borough form of municipal government have been introduced into several of the Canadian cities. Few, if any, of the older cities have retained their early types of government. Montreal, for example, is said to have had more than a dozen types of local organization during the hundred or more years of its corporate existence. The American practice of having the city electorate choose the mayor was introduced near the close of the last century. Councilmen were soon made to represent several wards into which the city was divided for electoral purposes. The result was a city council composed of ward membership and presided over by a popularly elected mayor. A next step was the selection of an executive committee for the supervision of the city administration. Montreal, which did not introduce this device as early as some of the Ontario cities, is perhaps the best example of it today. The Montreal council is composed of a mayor and thirty-five aldermen, who choose from among themselves a salaried executive committee of five members. The mayor, in spite of his political prestige and a $10,000 a year salary, is not a member of this committee; indeed, he has little or no administrative authority. While ultimate control of the city government remains in the council, all administrative and financial responsibility is delegated to the executive committee.

In Toronto, as well as in some of the other Ontario cities, there is an executive committee, called a board of control. The Toronto council is composed of eighteen aldermen elected annually from nine wards and five members of the board of control, consisting of the mayor and four controllers elected from the city at large. The mayor is chairman of the council and presiding officer of the board of control. The board of control is responsible for the general city administration; it nominates the departmental heads, formulates the budget estimates, makes all contracts, and supervises city expenditures. The council cannot reverse the decisions of the board of control on important matters except by a two-thirds majority, which is rarely done. The board of control scheme has been tried in several provinces, and many cities outside of Ontario are reported to have abandoned it. Winnipeg reverted to the council system in 1920, at the same time giving up the small ward basis of election. The city now has three large wards from each of which three aldermen are

elected annually by proportional representation for two-year terms. The mayor, elected at large, is simply the presiding officer of the council.

The American scheme of commission government was adopted by a few Canadian cities when it was in its heyday in the United States, but has since been discontinued without exception. It did, however, influence the reduction in the size of city councils, particularly in the western provinces, where councils of five to nine members are quite common at present. In Vancouver, notably, the council is composed of a mayor and eight aldermen, all elected at large for two-year terms, one-half of the aldermen overlapping the terms of the other half.

In recent years about thirty Canadian cities, all small and most of them in Quebec, have adopted the American manager plan.[8] This development may be said to be a return in a way to the English tendency to concentrate administrative supervision in the borough clerk. The English form, which in American terms is not far removed from the council-manager plan, has rarely been followed in recent years in Canada. An approach to it is to be found in Montreal where the director of departments has general supervision over the other administrative officers.

Provincial supervision of the local affairs of Canadian municipalities is restricted mainly to health and financial matters. General fiscal supervision is vested in the various provincial departments of municipal affairs. Before the depression, control over taxation and borrowing was said to be most effective in the Prairie provinces, where fairly strong provincial departments had been developed.[9] Within the past decade or more, the tendency in all the provinces has been to increase financial control over the municipalities. This is evidenced by recent developments in Quebec, Ontario, and Nova Scotia. In 1932 the Quebec municipal commission was created with extensive powers of supervision over the fiscal administration of municipalities and school boards in cases of default on their bonds.[10] The Ontario municipal board, the

[8] In 1942, the City of Quebec (183,000 population) adopted a modified form of the city manager plan.

[9] W. R. Cottingham, "Provincial Supervision of Municipal Debts," *Municipal Finance*, August, 1940, pp. 20–23.

[10] See Emile Morin, "Municipal Debt Supervision in Quebec," *Municipal Finance*, November, 1944, pp. 16–20. The author of this article is deputy minister of the Quebec department of municipal affairs. The work of the Quebec municipal commission and the department of municipal affairs was correlated in the beginning by having the deputy minister of the department serve as the first president of the commission. Mr. Morin relates that 97 municipal, school, and parish trustees corporations defaulted during the depression on a total of bonds amounting to $16,313,000. Four cities out of 26, 10 towns out of approximately 112, and 45 rural and village corporations out of 1,368 have been in arrears on principal or interest, or both, besides 31 school corporations and 7 parish trustees corporations. By 1944, 91 of the 97 defaulted

approval of which is required for all capital expenditures by municipalities, was set up in 1935. About the same time a department of municipal affairs was established and given direct control over Ontario municipalities in default. Nova Scotia also created a department of municipal affairs in 1935, which commenced to function in 1936. Among other things, it was given authority to supervise municipal accounting and auditing, to inspect municipal sinking funds, and to approve municipal borrowings.[11]

The Royal Commission on Dominion-Provincial Relations emphasized the need for greater provincial supervision over municipalities, especially in connection with their credit standing. It gave a number of reasons in support of this conclusion, among which were:[12]

> that the size of the municipal unit in metropolitan and rural areas is, in many cases, no longer economic or in keeping with administrative efficiency; that local needs no longer determine municipal functions and that many functions, essentially provincial, are still left with, or have been imposed on, the municipalities; that municipal revenues are in many cases far from adequate to support municipal functions; that there is almost universal complaint across Canada of undue, or inequitable, taxation of real estate, though the complaints are not always well founded; that although the total of municipal debt has not risen substantially during the depression, the credit of many "one-industry" municipalities, working-class "dormitory suburbs" of metropolitan areas, and metropolitan communities generally, has been severely strained, and even destroyed in some cases, because of relief costs.

Financial Organization and Methods

Among Canadian municipalities financial organization ranges all the way from quite rudimentary structures to fairly well developed departments. As a rule fiscal authority is scattered rather than integrated; only in some of the larger municipalities has any departmentalization been attempted.[13] The typical financial organization consists of as many as five independent officers—the assessor, the collector, the treasurer, the clerk, and the auditor. These officers usually fill statutory positions, their duties being defined by provincial statutes relating to municipal administration. In small municipalities the duties of two or more of the officers may be combined, though the auditor is usually not permitted to

corporations in the province had been reorganized by the commission, and 24 of the reorganized corporations had regained their autonomy. The others remained under the control of the commission, and six were still to be reorganized.

[11] See U. J. Harrington, "Provincial Supervision of Municipal Accounting in Nova Scotia," *Municipal Finance*, August, 1944, pp. 16–20.

[12] *Report*, Book II, p. 149.

[13] It is asserted by some Canadians, however, that lack of integration is a good thing in many cases. They hold that usually some outstanding official, through his personality and experience, will assume general direction of fiscal matters, thus more than compensating for the structural diversity.

hold any other office. The municipal council ordinarily appoints each of these officers; in most instances, they serve for indefinite terms, often for life.

The number of assessors or collectors appointed in any municipality sometimes depends upon how many the council thinks are necessary. When there are several assessors, the council may appoint an assessment commissioner to supervise their work and to sit with them as a board of assessors; otherwise, the clerk of the council takes care of such matters as notices relating to assessments and preparation of the tax roll.

The collector delivers the tax bills to the owners of the assessed properties and collects the taxes from them; if he does not succeed in every instance, he makes a declaration of those in arrears when returning the tax roll to the treasurer. The necessity for a collector has been questioned, particularly in Ontario where the taxpayers may pay their taxes directly to the treasurer. It is claimed that the treasurer could advantageously exercise all the duties of the collector, and he does so at least in Toronto and Hamilton. According to the Ontario Municipal Association, such procedure "would bring about the consolidation of accounting in connection with tax arrears, save the necessity for the return of the tax rolls to the treasurer, make possible the rendering of complete statements of unpaid taxes, and greatly facilitate the giving of information to the public regarding tax arrears."

The treasurer is a salaried official, and often serves for many years though appointed at the pleasure of the council. For example, Brantford, Ontario, a city of 35,000 inhabitants, has had only three treasurers since its incorporation as a municipality in 1877.[14] The treasurer is usually required when taking office to provide the council with a surety bond guaranteeing his faithful handling of municipal funds. He is generally regarded as "the chief receiving and disbursing officer and is the custodian of the municipality's cash balances." He is responsible for keeping the accounts of the municipality; he prepares and sells all debentures, maintains records of their issue and redemption, and sees that any required sinking funds are set up and properly contributed to. The treasurer often approaches the full stature of a chief financial officer for the municipality, although his work is sometimes duplicated to a small degree by the clerk, who serves as secretary of the council, since the latter usually maintains a file of all accounts acted upon by the council.

The auditor, as a rule, may not hold any other municipal office. He serves during good behavior, and is removable only for cause by more than a majority vote of the members of the council. In recent years cer-

[14] E. A. Danby, "The City Treasurer as Finance Officer in Brantford, Ontario," *Municipal Finance*, November, 1945, p. 18.

tain qualifications have been set up for holding the office in some of the provinces. Ontario, for example, has required all municipal auditors to be licensed since 1941.[15] Ordinarily, the auditor is required to examine all accounts of the municipality, including municipal boards and utilities, and to report annually in duplicate an abstract of the receipts, expenditures, assets, and liabilities of the municipality, specially noting all expenditures made contrary to law. One copy of this abstract is filed with the clerk of the municipality for the information of the council and the other copy goes to the provincial department of municipal affairs.

Among the large municipalities of Canada, the cities of Toronto and Winnipeg afford good examples of an integrated finance department. In Toronto the finance department is presided over by the finance commissioner who is also the city treasurer. The finance commissioner not only performs the duties of treasurer but is also general accounting and budget officer of the city. He is appointed by the city council for an indefinite term, which usually means life. The finance department has several divisions, such as tax revenue and collection, waterworks billing, license branch, paying division, funded debt branch, and accounting office.[16] All city revenues are collected by this department, and with one exception all payments are made by it. The payments out of the relief fund are made separately by the welfare department, but the finance commissioner has accounting control over this fund. The finance commissioner, together with the mayor, has control of the sinking funds of the city. The miscellaneous revenues are estimated for the budget by the finance commissioner, and the board of control or the city council may not change this estimate. With the exception of purchasing supervision, the financial functions of the city are mainly centralized in the finance department. During September, 1943, the office of purchasing agent was created and attached to the department of works. There is an independent city auditor, as there properly should be, whose job it is to audit all the accounts and transactions of the finance department and of the other city departments.

The finance department of Winnipeg was established in 1924 through the consolidation of several fiscal offices, such as the treasury, license issuance, and tax collection. Then in 1931 the comptroller's department was abolished and all of the functions of the comptroller, except those of auditing, were assigned to the finance department. The auditing functions of the comptroller were vested in a newly appointed city auditor.

[15] In some municipalities, particularly in Ontario, the council follows the custom of hiring a firm of chartered accountants to do the auditing work.

[16] G. A. Lascelles, "Financial Organization of the City of Toronto, Canada," *Municipal Finance,* November, 1942, pp. 17–22.

An officer known as the commissioner of finance and city treasurer was placed in charge of the finance department. This officer is appointed by the city council and holds office at its pleasure, which in practice amounts to an indefinite and long tenure. He is designated as "the chief financial and accounting officer of the city," and as such maintains all accounting records, collects all city revenues, is custodian of all city funds and financial documents, prepares all vouchers and pay rolls, makes up the annual budget, advises the committee on finance of the city council on financial matters, reports monthly to the city council on various phases of the city's finances, and submits an annual report to the city council on the financial position of the city, the statements of which are certified to by the city auditor. The finance department, as it existed in 1939, contained the following six branches: treasury, accounting, tax revenue, waterworks and sewer revenue, license, and market.[17] All of these branches, with the exception of the market branch (weights and measures), may be regarded as dealing strictly with financial matters. Assessment and purchasing are the only other functions of a fiscal character which might come under this department, but which are being carried on by two other departments.

The city auditor of Winnipeg is appointed by the council and serves during its pleasure. His duties are to audit the books and accounts of the finance department and of the other city departments, to certify to the correctness of the annual statements of the commissioner of finance and city treasurer, and to report all irregularities and failures to comply with the law to the committee on finance of the city council. An added function which does not strictly belong to an auditor, but which appears to have been carried over from the old comptroller's duties, requires the auditor "to examine and audit, before payment, all disbursements to be made by the city, and to countersign cheques issued therefor." This procedure tends to confuse the check afforded by the independent audit with the control normally exercised by the finance department. Furthermore, the city auditor's functions do not extend, as they should, to the accounts of the sinking fund trustees of the city, the civic pension board, or the Winnipeg housing commission; in addition, the accounts of the Winnipeg School District No. 1, the Greater Winnipeg Water District, and the Greater Winnipeg Sanitary District are not subject to his audit.

Municipal Budgeting and Budgetary Control

Municipal budgeting, as we know it in the United States, is a comparatively recent innovation in Canada. It is, as yet, far from being uni-

[17] *Report of the Royal Commission on the Municipal Finances and Administration of the City of Winnipeg* (1939), pp. 25–28.

formly developed or generally practiced. Canadian municipalities, it is true, have prepared estimates of revenues and expenditures for a great many years; but it is only since World War I that there has been a real connection, even in a few of the municipalities, between budgeting and accounting so as to permit the establishment of budgetary control. Even now, some of the largest cities have not yet developed an adequate system of budgetary accounting. During the depression years, financial difficulties forced several municipalities to apply stricter budgetary methods. Provincial supervision of local finance, particularly in Ontario and Quebec, has recently led to the extension of budgeting, notably in the case of defaulting municipalities. The situation growing out of the financing of World War II has undoubtedly hastened the growth and application of municipal budgeting in Canada.

Budgeting in Canadian municipalities has so far been confined very largely to current requirements. Capital budgeting, as such, is largely undeveloped, as it is in many American cities. Public improvements are not ordinarily planned over a period of years; few, if any, municipalities have undertaken the preparation of five- or ten-year programs for capital expenditures, though such programs have been proposed and clearly outlined as to their application.[18] It has been suggested that all improvements should be listed in the order of necessity together with the estimated cost of each and that the means of financing each year's improvements should be clearly set forth. The program would of course be subject to revision each year by the council as conditions seemed to warrant, and the plan for the year nearest at hand would then constitute the capital budget. The current budget and the capital budget would thus be coordinated parts of the same financial picture, since the capital budget has a distinct bearing on the current budget inasmuch as annual debt charges on borrowed funds become an immediate feature of the latter. It has also been suggested by former Director H. L. Brittain of the Citizens' Research Institute of Canada that "the more capital expenditures can be taken care of in the current budget either by direct appropriations or by shortening the life of the debenture issues, the nearer a municipal corporation approaches a real pay-as-you-go policy which should be the ideal, at least in prosperous times, and would probably do more toward cutting down the cost of government than any other method of control which might be devised." [19] It has also been suggested

[18] Horace L. Brittain, "A Ten-Year Capital Budget," *The Municipal Review of Canada,* October, 1936, p. 20. Also by the same author, "The Municipal Budget as an Administrative Instrument," *ibid.*, July–August, 1937, pp. 9–11.

[19] Ontario has authorized the building up of reserves by municipalities from current taxation for postwar capital expenditures. Nova Scotia also permits similar practice. See E. A. Danby, "Capital Budgeting," *ibid.*, May–June, 1945, pp. 13–14.

that a satisfactory capital budget in any urban municipality is impossible without a town or city planning commission working in an advisory capacity to the council.

The current budget of each municipality is usually prepared by the treasurer, sometimes by the treasurer and one or two members of the council constituting a sort of budget committee. The estimates of departmental expenditures are assembled by the treasurer, who ordinarily has "advisory control" over them to the extent that he may require adequate explanations for all new items and may check the natural tendency toward yearly increases in established items. The treasurer lists all fixed charges, such as interest on debentures, and prepares estimates of all available revenues for the coming year. He also receives the estimates of certain independent boards and commissions operating in the municipality. The departmental estimates and fixed charges are added together, from which sum the available miscellaneous revenues are deducted, thus arriving at the total of the property tax needed to balance the budget. The tentative tax rate so indicated may call for a revision of all departmental estimates by the council or its budget committee,[20] after which the budget and the tax rate are approved by the council.

Inasmuch as the fiscal year of most municipalities coincides with the calendar year, one would expect the current budget to be adopted during December at the latest so as to have a financial plan for the opening of the year. But this is not usually the case, because the custom of annually electing councilmen, which generally prevails throughout the Canadian municipalities, has decreed otherwise. Since the councilmen take office on the first of January, it is claimed that they should adopt the budget for the year so they do not become answerable for a part of the acts of their predecessors. This means that both the revision and the adoption of the current budget are deferred until after the opening of the fiscal year. The operating budget of the City of Toronto, for example, is not usually adopted by the council until about a quarter of the fiscal year has elapsed. The local Bureau of Municipal Research has been very critical of this procedure, saying that "detailed clear-cut plans and detailed specifications are supposed to be drawn up before, not after, work actually starts."[21] It suggests that the lack of interest in the municipal election (held in December) is due more than anything else to the failure of the city administration to produce a tentative budget for discussion in the campaign. "The preparation and distribution of a tentative budget before the civic election," says the Bureau, "would enable

[20] The budget committee in some of the Ontario cities is the board of control.

[21] Toronto Bureau of Municipal Research, *White Paper No. 268*, February 27, 1942. See also *White Paper No. 269*, April 14, 1942.

candidates to state their positions in detail and would enable electors to formulate intelligent views and to decide which candidates most nearly meet their views." Some municipal councils in Canada even defer the adoption of their operating budgets until as late as September, at which time budgetary effectiveness is practically lost since nearly all the controllable expenditures have already been made.

Several municipalities, mainly in Ontario, are making use of an orderly classification of expenditures by objects in their budgeting and accounting work. This classification, endorsed by the Ontario Municipal Association, has seven basic groups, as follows: 100 salaries and wages; 200 supplies and materials; 300 services purchased (mainly contractual); 400 current charges; 500 properties (equipment, buildings, and improvements); 600 fixed charges (principal and interest on debentures); and 700 welfare and health (a functional group, apparently thrown in for segregation purposes). These groups are adaptable to the smallest municipalities and are subdivided into varying degrees of detail for larger municipalities.[22]

A classification of revenues by sources has been worked out for the municipalities of all provinces and presented in the *Manual of Instructions* published in 1942 by the Dominion Bureau of Statistics. Its main groups are as follows: 100 taxes (real property, personal, business, income, poll, amusement, sales, household and tenant, and taxes for school purposes); 200 licenses and permits; 300 rents, concessions, and franchises; 400 law enforcement (fines and penalties); 500 investment earnings; 600 service charges; 700 recreation and community services; 800 grants and subsidies from other governments; 900 debenture debt charges recoverable; 1,000 miscellaneous (not otherwise classified); 1,100 public utilities (surplus taken into revenue); and 1,200 institutional services (surplus taken into revenue).[23]

Budgetary control on the basis of allotments, following a recently developed American practice, has been proposed for Canadian municipalities, especially those of Ontario;[24] and has been properly geared into a proposed system of accounts for the municipalities. In practice, however, it is not yet widely accepted. The allotments are usually made on a

[22] C. M. Wrenshall, *Municipal Administration and Accounting* (1937), pp. 48–49. Mr. Wrenshall has shown how the basic groups of the classification may be expanded for medium-sized and large municipalities.

[23] Dominion Bureau of Statistics, *Manual of Instructions—Balance Sheets, Revenues and Expenditures and Other Accounting Statements of Municipal Corporations* (1942), p. 46.

[24] E. G. Jarmain, *Manual of Accounting for Ontario Villages and Townships*, prepared for the Municipal Finance Officers Association of the United States and Canada and the Department of Municipal Affairs of the Province of Ontario (1939), pp. 9–11. Also C. M. Wrenshall, *Municipal Administration and Accounting*, Chapter 5, pp. 57–66.

monthly basis and the necessary accounting forms are devised to this end. But this does not mean simply dividing the annual revenues or expenditures by twelve and showing the result as the monthly figure. It is urged that the various items of revenue or expenditure should be carefully analyzed to determine how they will actually occur throughout the year. It is thus possible to set a revenue figure and an expenditure figure for each month, and to show the accumulated totals at the end of each month. This monthly allotment of the annual figures in the budget gives a far greater degree of control over expenditures than do the total budget figures, since it reveals immediately any considerable deviation from the estimated amounts. In the case of marked deviations steps can be taken at once to correct the situation, both by pursuing retrenchment in expenditures and by examining the causes for the falling off of revenues. Each month a report is prepared by the chief accounting officer, giving for each department the total appropriation for the year, the allotments to date, the amounts overspent or underspent, and the balance available for the rest of the year. Examination of this report by the council enables it to ascertain quickly any expenditure in excess of the estimated amount; thus any department which is exceeding its estimates can be warned of the trend of its expenditures and can take immediate steps to correct the situation. If larger expenditures are required because of emergencies, then the council may pass a supplementary appropriation. This increased authorization may be offset by reductions in other departments which are not spending their full estimates. If this is not possible, then great care must be taken to avoid a deficit for the fiscal year. It may be necessary to curtail certain expenditures, which can be put off to another year. In some cases, revenues may exceed the estimates and thus bring into the treasury sufficient funds to avoid a deficit.

Among the larger cities of the Dominion, Quebec is reported to be operating its budget on a monthly allotment plan. This plan was started in 1939 and is estimated by the city treasurer to have reduced the expenditure of the appropriations for that fiscal year by about $143,000.[25] The monthly allotments of appropriations are made by the spending departments and are based on past experience. These allotments are approved by the administrative committee, composed of the mayor and six aldermen, which is the executive body of the city government. The city treasurer maintains accounting control on the basis of the allotments and issues a monthly statement of budgetary balances for the information of the committee and the council. This statement shows the annual appropriations by expenditure items, the accumulated monthly estimates,

[25] C. R. Fontaine, "Quebec Controls Monthly Budget," *Municipal Finance*, February, 1941, pp. 22–25.

the accumulated encumbrances, the unencumbered balances, and the expenditures and encumbrances of the latest month as compared with the monthly allotments. Under the Quebec charter the city treasurer occupies the rather unique position of "director of civic services," which gives him authority to supervise personnel and operations in all departments except those of the city clerk and the city auditor, neither of which are large spenders. This centralization of financial control in the hands of the treasurer is said to make it easier for the administrative committee to be informed and to act quickly on all city affairs.

Accounting and Reporting

In its attempt to compile reliable and comprehensive financial data for the Canadian municipalities, the Royal Commission on Dominion-Provincial Relations found its efforts greatly hampered by the lack of uniform accounting.

> In some provinces [the Commission wrote[26]] current and capital items in municipal accounts are not distinguished in so far as their statistical presentation is concerned; in others, statements of aggregate municipal finances combine statements compiled on the accrual basis with others on the cash basis. An analytical breakdown is generally lacking, and relatively large amounts are commonly lumped together as "miscellaneous." It is even frequently impossible to distinguish between debt interest and debt retirement payments. The local government of any given area may be in the hands of several bodies —say a village council, a township council, a county council, a school board, a health board, a public utility board, etc., with different boundaries, different fiscal periods, and different systems of accounting, and to disentangle the affairs of these overlapping bodies and secure any consolidated statement of their financial operations and position is well-nigh impossible. Furthermore, what statistics are available in most of the provinces relate only to very recent years. A historical study of municipal finance in general is, therefore, almost impossible. While some of the more recent reports of the provincial departments of municipal affairs are more satisfactory, the need for a greater degree of coordination and cooperation between provincial and municipal governments with respect to municipal finance statistics remains urgent.

In a foreword to the department's *Manual of Accounting for Villages and Townships,* published in 1939, the minister of municipal affairs of Ontario, Eric Cross, wrote that "in a large number of municipalities, financial difficulties may be traced directly to faulty accounting and inefficient auditing." He insisted on the use of the manual to bring about improved and uniform accounting methods. The Ontario Municipal Association[27] and the Toronto Bureau of Municipal Research have

[26] *Report,* Book II, p. 140.

[27] Thomas Bradshaw spoke of "the primitive, inefficient and careless way in which many of the records, books and accounts of a number of municipalities are kept." See his "Municipal Finance," Ontario Municipal Association, August 31, 1933, p. 16.

done much in recent years to make accounting records and financial statements understandable to the officials and councilmen of municipalities. The Association, through one of its committees, reported in the following manner: [28]

> In considering the subject of uniformity in municipal reports, the committee, after much thought and study, has reached the conclusion that the existing practice of reporting cash receipts and cash disbursements makes the achievement of uniform reports impossible. Possibly no better example of the problem is afforded than in the case of taxes. During the early part of the year, the urban municipalities strike a tax rate which determines the amount that is to be collected from the taxpayers, apart, of course, from local improvements and other special assessments. Now, in reporting the income from taxation at the end of the year, many municipal officials show the actual amount of cash that has been received and also include whatever taxes have been collected on account of levies imposed for previous years. While this practice is perfectly accurate from the standpoint of actual receipts, the report is not of much value statistically, inasmuch as a student of the report would be materially misled by the fact that arrears are included with current taxes and no cognizance has been taken of the current taxes which remain uncollected. Likewise, where a municipality reports the actual cash disbursements that have occurred during the course of the fiscal period, the report is extremely liable to be misleading since all the moneys which should have been paid out may not have been so paid. . . . The committee has therefore concluded that, before uniformity can be accomplished, all urban municipalities must first establish their accounts on a "revenue and expenditure" basis rather than on a "cash receipt and disbursement" plan.

The committee then went on to define a proposed system of accounting and to set up a classification of accounts.

A notable step toward bringing about desirable uniformity in the accounting and reporting of Canadian municipalities, in line with the Ontario Municipal Association's proposals, was taken in the autumn of 1942 through the publication by the Dominion Bureau of Statistics of a *Manual of Instructions,* containing balance sheets, revenue and expenditure statements, and other accounting forms for municipal corporations. This manual and an accompanying booklet on municipal accounting terminology resulted from a series of Dominion-provincial conferences on municipal statistics, the first of which was held in July, 1937. The basic statements of the manual were worked out and adopted by the end of 1940, after several months of study and research by a special committee. The preparation of the manual, as a means of implementing the uniform use of these statements, was then assigned to the Finance Statistics Branch of the bureau under the direction of J. H. Lowther. It was the intention of the conference that the manual would

[28] C. M. Wrenshall, *Municipal Administration and Accounting,* quoted on pp. 86–87.

form the basis of future reporting by the municipalities to their respective provincial departments of municipal affairs, and that the latter would likewise use it in preparing their published reports on municipal statistics. The conference realized, as did the Royal Commission on Dominion-Provincial Relations, that local planning on a nation-wide scale, equalization of municipal burdens, or setting up fiscal standards was impossible as long as the statistical reports issued throughout the country on municipal finances were not sufficiently uniform to be comparable. So to encourage the preparation of uniform financial data the manual was issued in loose-leaf form, for easy revision, and sent without charge to every municipality in the Dominion. If it is put to use in all the provinces, as it richly deserves to be, the manual should work a complete transformation in municipal reporting within a reasonable time. Canadian financial statistics for local governments should then be more comprehensive and should probably exhibit greater uniformity than those of the United States.

Some provinces have already endorsed the manual and have undertaken, through their departments of municipal affairs, to have their municipalities adopt and use the manual's statements and reporting procedure. The Nova Scotia department of municipal affairs started as soon as the manual was issued in 1942 by instructing the municipal treasurers that they would be required to report to the department on the basis of the manual at the close of the year 1943. A two-day conference or "school" was arranged by the department for the municipal finance officers to instruct them in the use of the accounting forms, classifications, and reports suggested by the manual. As a result, all of the municipal units are now well on the way to maintaining identical types of records and submitting comparable annual reports.[29] The Alberta department of municipal affairs started all municipalities reporting on the basis of the manual in 1943. The Quebec department of municipal affairs prescribed the manual's reporting system for cities and towns in 1943, and for rural municipalities in 1944. The Saskatchewan department of municipal affairs inaugurated municipal reporting in 1944 along the general lines set forth in the manual. The departments of municipal affairs in New Brunswick, Ontario, Manitoba, and British Columbia are reported to be considering the application of the manual to the gathering of municipal statistics. Since there is no department of municipal affairs in Prince Edward Island any action on the manual must be taken independently by the seven towns and one city, which are the only incorporated municipal units in the province.

[29] U. J. Harrington, "Provincial Supervision of Municipal Accounting in Nova Scotia," *Municipal Finance*, August, 1944, pp. 16–20.

Separate fund accounting and reporting for municipalities are especially emphasized in the manual. Several funds are recognized as being of general application; namely, (1) capital and loan fund, (2) sinking fund, (3) revenue fund, and (4) trust fund (for many larger cities and towns). Some of the larger municipalities have a number of special funds, such as reserve, pension, insurance, and working capital funds. From the standpoint of the municipality as a unit, schools, utilities, and housing and cemetery projects also constitute separate funds as set up in the manual, though each of these may account for their moneys under one or more of the funds of general application. Ordinarily funds are maintained only when required by statute for specific purposes, when cash or other resources are earmarked for special purposes (e.g. sinking, pension, accident, and insurance funds), when separate and preferential taxing districts are located within a municipality, or when trading undertakings (municipal utilities) are operated.

The manual makes provision for putting the capital and loan funds into a consolidated or combined balance sheet for each municipality, which is often not done at the present time. In recent years the idea of presenting a balance sheet of current assets and liabilities only has been gaining support. All matured liabilities are treated as deferred expenditures and only the current installments are taken into account. This presentation brings into greater relief the operations of the revenue fund, particularly the current surplus or deficit. But Dominion authorities and many local finance officers believe that unless a schedule of capital outlays and outstanding balances of loans therefor are also presented, much valuable data will be lacking.

When municipalities conduct public utilities, such as water supply, electric light and power, housing projects, cemeteries, street railways, bus lines, telephones, ferries, airports, and so forth, the manual prescribes a balance sheet and operating statement for each such utility. It recommends that the income and expenditure of each enterprise should be kept apart from the ordinary revenues and expenditures of the municipality and a separate operating statement prepared for each, regardless of the method of financing its operations or the method employed in its management.[30] The accounting classification recommended by the United States Power Commission for state public service commissions is applied as far as practicable to the Canadian municipal utilities.

Public school statistics and financial statements are not included in the

[30] In some municipalities, the management of the utility services is entrusted to a local board or commission which is a corporate entity separate and apart from the municipal council, but created by the parent municipal corporation; in other municipalities, these same services are managed directly by a committee of the municipal council.

manual, but are left to future conferences and determination. This omission grows out of the fact that local school authorities report to the provincial departments of education rather than to the departments of municipal affairs. Another reason, as stated in the manual,[31]

> is that there is no common basis or uniformity of practice in the financial administration of schools in relation to local municipal organizations; and this applies not only as between the several provinces but also within most of the provinces as well. In some instances school areas conform with municipal boundaries and the municipality levies and collects the school taxes and issues all debentures and effects other borrowings for and on behalf of local school authorities. In others, while the municipality may levy and collect the taxes, the local school authorities issue their own debentures and incur other debt direct; and in still other instances all financial administration, including the levy and collection of taxes, is carried out directly by the school authorities independently of the local municipality. In many of the latter instances, school areas do not conform to municipal boundaries. Thus, municipal reports generally would reflect only a small part of the financial administration of school authorities in organized areas, in addition to which there are, in some provinces, schools in unorganized areas which must also be taken into account.

Municipal Auditing

As already indicated, auditing in the Canadian municipalities is in general not very satisfactory. Some of the provinces, notably Ontario, have tried to remedy this situation by inserting rather elaborate provisions relative to auditing in their municipal acts. But these provisions are usually disregarded by the municipal councils, particularly in the small municipalities. Poorly trained, incompetent, or inexperienced auditors are sometimes appointed by these councils. It often falls to the lot of the provincial municipal auditors to check up on the work of these local auditors, and to report something like the following: "We cannot see where any benefit accrued to the town from the audit of the accounts performed by the local auditors appointed for the past year. In our opinion the balance sheet prepared by them is worthless as a true exhibit of the financial position. It exhibits a lack of training and experience in municipal finance and accounting." [32] This situation, although not common to the municipalities of some provinces like Quebec, clearly indicates the need for direct supervision of local auditing by the provincial department of municipal affairs.[33]

Some provincial departments have already found it desirable to issue detailed instructions as to the proper methods of conducting a municipal audit. These instructions may be summed up as stressing three neces-

[31] *Manual of Instructions,* p. x.
[32] C. M. Wrenshall, *Municipal Administration and Accounting,* quoted on p. 19.
[33] In 1941, Ontario began requiring municipal auditors to be licensed.

sary conditions to be fulfilled by the local auditor: (1) to be satisfied, after examination of the books, vouchers, and records of the municipality, that all the transactions of the period under examination have been correctly and honestly recorded; (2) to establish the existence and correct recording of all assets and liabilities shown on the balance sheet, and, if need be, to comment on the basis of valuation of the assets; and (3) to see that all the operations of the period covered are correctly shown in the statements and reports presented, and that these documents give a true and correct view of the financial condition of the municipality. Such being the auditor's task, certainly a trained and experienced person is needed to perform it satisfactorily.

Personnel and Purchasing Supervision

There is no organized civil service system for the municipalities of Canada. Generally speaking, there is not the same need for the application of civil service to Canadian municipalities as there is to the cities of the United States, since the former are largely free of anything resembling American spoils. The main reason for this lies in the fact that Canadian municipal officials are as a rule appointed on a permanent basis. If any one of these officials does not know his job at first, it is usually worth his while to learn it. There is, however, some evidence of political influence in the hiring of the rank and file of municipal employees in a few of the larger cities. In Montreal, for example, city employees are supposed to be appointed by the executive committee on recommendation of the departmental heads, whereas they are said to be designated largely by the council members.[34] To remedy this situation a proposal has been made to establish a municipal civil service board for Montreal, composed of the director of departments and the departmental heads, with exclusive powers in the matter of appointment, promotion, dismissal, and discipline of all civic employees.

Efforts have been made in several Canadian cities to standardize positions and salaries. As a result of a survey conducted in 1926, a classification of positions and recommended salary ranges were set up for the various civic employees of Toronto. Similar surveys were subsequently conducted under the direction of Dr. H. L. Brittain in both Winnipeg and Vancouver. These surveys analyzed the positions in the city services and suggested basic rates of pay for the various jobs.

The royal commission designated to study the finances and administration of Winnipeg in 1939 proposed the appointment of a city personnel officer, independent of all the civic departments. The commission recommended that this officer should have power to regulate conditions of

[34] A. J. Pick, *The Administration of Paris and Montreal* (1939), p. 121.

employment, to propose revision in the classification of employees, to determine appointments and promotions in the service, to investigate grievances of employees which departmental heads had been unable to settle, and to supervise wage changes and classifications. It was suggested that promotions in the city service should be made on the basis of merit rather than seniority. The personnel officer, the commission thought, should report to a standing committee of the city council and should have the assistance of a small advisory committee drawn from the city service.[35]

The supervision of municipal buying by a central purchasing agency, though not widely practiced among Canadian cities, has been considerably extended in one form or another during recent years. Montreal has a division of purchases and stores in its department of finance in which is centralized all city purchasing. Several smaller cities have established centralized purchasing, usually combined with stores control. The Toronto Bureau of Municipal Research insisted for a number of years that the government of that city ought to create a central purchasing organization to control all of its buying, instead of each city department doing its own purchasing.[36] Finally, in September, 1943, a city purchasing agent was named and his office was attached to the department of works. Winnipeg has a joint purchasing committee, composed of seven members representing the major departments of the city government, such as the fire, health, and engineering departments and the hydroelectric system. This committee is responsible to the city council. While there are a number of commodities which it does not buy for the city, the committee is reported to have made considerable progress since its establishment in 1928 in the coordination and supervision of city purchasing.

Municipal Revenues

The general property tax is the backbone of the revenue system of Canadian municipalities, just as it is of the American cities. This tax is now confined mainly to a levy on the capital value of real property. The personal property tax has gradually disappeared in recent years and remains an important source of municipal revenue only in a few cities of the Maritimes. Quebec's municipalities have never levied a personal property tax, and those of British Columbia dispensed with such a tax several years ago.

Next to the real property tax, the business tax is the most common

[35] *Report* of the Royal Commission on the Municipal Finances and Administration of the City of Winnipeg (1939), pp. 76–78.

[36] G. A. Lascelles, "Financial Organization of the City of Toronto, Canada," *Municipal Finance,* November, 1942, p. 20.

form of taxation in the Canadian municipalities. It is imposed on the occupants of premises used for carrying on any trade, profession, or calling (other than agriculture) in all the provinces except British Columbia and Prince Edward Island. In the other two Maritimes, it exists only in the cities of Halifax, Nova Scotia, and St. John, New Brunswick. The basis of the business tax varies widely. In Halifax and St. John and in the municipalities of Ontario, it is imposed as an annual rate on a percentage of the assessed valuation of the premises. The municipalities of Quebec and Manitoba, which make use of the tax, apply it as a rate on the annual rental value of the premises. In the municipalities of Saskatchewan it is a rate based on the square feet of space occupied; in those of Alberta it is based either on the annual rental value or the floor space occupied. Ordinarily the rate or the taxable percentage of the assessed valuation varies with different types of businesses.

Poll taxes may be imposed in any of the provinces, but as a matter of fact they are levied in only a few municipalities, mainly in the Maritimes, with practically negligible returns. Municipal income taxes were levied in the Maritime provinces and in the metropolitan area of Montreal until the Dominion-provincial agreements on such taxes became effective in 1942. A municipal sales tax of 2 per cent on retail sales, except food and food products, is imposed in the Montreal area and distributed to the constituent municipalities on a population basis.[37] Special municipal taxes are sometimes levied on insurance companies, banks, public utilities, underground conduits, radios, and motor cars, such taxes being permissible in all the provinces.

With some exceptions, the general trend in Canadian municipalities is to confine taxation mainly to real property, businesses, and special franchises. Municipal taxes in the Maritime provinces are, however, considerably more diversified than in other sections of Canada. Most of the Maritime cities have poll and personalty taxes and (until 1942) income taxes.[38]

The costs of certain municipal services, such as schools, highways, and social benefits, are met in part by grants from the provincial governments. The Dominion government does not deal directly with the municipalities in connection with any government supported service. Its

[37] L. Roberge, "Montreal's Revenues," *Municipal Finance*, February, 1943, p. 13. When Quebec imposed an identical sales tax on July 1, 1940, the province undertook to collect the municipal as well as the provincial sales tax and to remit to the city its share.

[38] Moncton, N. B., assessed a rentals tax on its inhabitants when the Dominion government took away its right to levy an income tax. The rentals tax is figured at the general rate of $3 per hundred dollars of rent or rental value. For example, on a rental of $25 per month, or a total of $300 per year, the tax is $9. See L. T. Tingley, "Moncton's Tenancy (Rental) Tax," *Municipal Finance*, February, 1943, p. 14.

contributions, in such cases, are paid to the provinces under working agreements, and the provinces in turn deal with the municipalities. The practice as to the division of the costs of these services between the provinces and the municipalities varies widely. In Ontario, since the discontinuance of the municipal income tax in 1936, the provincial government has paid an annual subsidy to all municipalities equivalent to one mill on each dollar of ratable property.

The practice of sharing certain specific provincial revenues with the municipalities, which is gaining ground in the United States, is followed only to a limited degree by British Columbia, Ontario, and Quebec. British Columbia shares the revenue from motor licenses with the municipalities. Until 1933 it also shared with them the proceeds from pari-mutuel taxes and from liquor profits. Ontario distributes a minor part of its receipts from railway taxes among the municipalities in proportion to population. Quebec allows the municipalities to retain one-half of the gross receipts of the provincial amusement tax which is collected by them.

There are certain so-called nontax revenues which are collected by the municipalities, such as licenses, court fees and fines, rentals, and administrative receipts. In some instances, public utility earnings and franchises are put in this group. The surplus earnings of public utilities in a number of municipalities, especially in western Canada, serve to reduce taxation. The nontax revenues are more numerous and more varied in the urban than in the rural units.

The Real Property Tax

Except in the case of frontage taxes (called special assessments in Quebec, as in the United States), the real property tax in Canada consists of a levy on the capital value of the property affected, or on some portion of this value, as ordinarily determined by the municipal assessors. The value as arrived at by the assessors is subject to appeal to various kinds of boards of review, and in most cases to final review by the courts. Land is supposed to be assessed at its full value in all of the provinces, and likewise improvements in the five eastern provinces. In the Prairie provinces all farm buildings and improvements are assessed at from about one-half to two-thirds of their value, depending upon the province and the classification of the municipality. In British Columbia improvements are supposed to be assessed at their actual cash value, but are taxable only on a part of this value not exceeding 75 per cent in cities and districts and 50 per cent in villages.[39]

[39] This is similar to the Pittsburgh, Pennsylvania, scheme, which taxes buildings at one-half of the rate applied to land.

Since the Prairie provinces levy provincial taxes through their municipalities on locally assessed real property, they have found it desirable to create provincial assessment commissions, which attempt to equalize assessments in the municipalities, and to assess directly the property in the local improvement districts. British Columbia, for similar reasons, appoints provincial assessors who assess the property in the unorganized areas which extend over more than 99 per cent of the provincial territory. The Alberta and Manitoba assessment commissions have advanced well beyond mere equalization and have undertaken a measure of supervision. Both of these commissions issue pamphlets for the guidance of local assessors, and keep in touch with these officers through visits and meetings. They also have some appeal duties and are required to approve the municipal assessment rolls. Saskatchewan has gone even further and has attempted through its assessment commission, which operates under the provincial department of municipal affairs, to apply central assessing of property on a large scale. It began a revaluation of all rural property in 1939. About fifty rural municipalities have had their property revalued each year at a cost of about $50,000 annually. The Saskatchewan Urban Assessment Committee, while questioning some of the details, has approved the project as eminently worth while and has recommended its extension to include the urban municipalities.

The tax rates on real property assessments vary widely from province to province and even within each province.[40] Valid comparisons can only be made after a detailed study of differences in assessment laws and methods. The tax rates are sometimes subject to statutory limitation, except in the Maritime provinces. Such limitation is often without practical effect, since levies for schools and debt service are usually excluded and at times levies for local improvements, police, parks, water, and provincially imposed expenditures are also excluded.

Certain properties are exempted from the tax on real estate in all municipalities. They ordinarily include properties belonging to the Crown, the municipality, churches, hospitals, cemeteries, charitable and educational institutions, and occasionally a variety of other properties. New industries, for example, are often exempted in whole or in part

[40] Halifax recently adopted a unique method of obtaining revenue from the war industries in that city. "All property in the city," writes Municipal Commissioner C. L. Beazley, "is divided into two classes, business properties and residential properties, and two tax rates are levied. The residential rate is fixed at thirty-five mills and this rate is frozen at that figure for a period of three years. The business tax rate is the only flexible rate and it applies against all business premises in the ordinary use of the word and against certain other assessments which are regarded as business assessments. The object and effect of the plan is to require business to assume the burden of taxation above the residential mill rate." C. L. Beazley, "Municipal Finance in 1942—Canada," *Municipal Finance,* August, 1943, p. 15.

for a number of years. Dwellings assessed at less than a certain figure are partially exempted on a graded scale in the city of Toronto. The ratio of the value of exempt properties to the total assessed valuation varies in different municipalities. In some of the urban municipalities the amount of exempt properties reaches as much as 20 or 25 per cent of the total valuation.[41] Not only have the exempt properties greatly increased in recent years, but they took a spurt upward during World War II owing to the establishment of government owned industries and other agencies to promote war production. This situation puts an added burden on the cities and other urban centers to provide services to such properties without compensating revenue being derived from them. The movement of population to suburban areas, which has been intensified in some localities (such as Halifax and Ottawa) by war activities, has tended to reduce city tax revenues without a corresponding reduction in service costs and overhead expenditures.[42]

TABLE XII. CANADIAN MUNICIPAL REVENUES,[1] 1943

Sources	Amount (000 omitted)	Percentage
Real property taxes	$259,757	76.5
Other taxes	33,393	9.8
Total taxes	293,150	86.3
Licenses, permits, and fees	7,744	2.3
Municipal public utility contributions	14,188	4.1
Other revenues[2]	25,608	7.3
Grand total	$340,690	100.0

[1] From *Comparative Statistics of Public Finance, 1933 to 1943,* Dominion-Provincial Conference on Reconstruction, August, 1945, Section V, pp. 131–72.

[2] Does not include Dominion-Provincial Tax Suspension Agreement for payments to municipalities in Prince Edward Island, $10,000; Nova Scotia, $143,000; New Brunswick, $1,380,000; Quebec, $2,397,000—total $3,930,000. Also does not include provincial subsidies to municipalities in Ontario, $3,413,000; Alberta, $63,000—total $3,476,000.

Total Taxes and Other Revenues

In the decade before World War II the total taxes and other revenues of Canadian municipalities averaged more than 30 per cent of all governmental income–Dominion, provincial, and municipal–and consider-

[41] In Halifax the exempt properties are unusually high, being almost as much as the nonexempt, largely owing to extensive ownership of harbors, railways, buildings, etc., by the Dominion government.

[42] J. H. Lowther, "Wartime Economic Problems in Canadian Cities," *Municipal Finance,* May, 1942, p. 16. Mr. Lowther remarks that "The cities and their suburbs that are tasting this unnatural growth and development, for the first time, relatively speaking, should take heed of the lessons and experience of the five older areas, wherein occurred the most serious municipal defaults in Canada."

ably more than the aggregate revenues of the provinces. The total municipal revenues for 1933 were $294 millions, or 41 per cent of the aggregate revenues for all governmental units; for 1937, they were $304 millions, or 30 per cent; and for 1939, they were $316 millions, or again 30 per cent.[43] The total provincial revenues for the same dates were $133 millions, $221 millions, and $236 millions, respectively.

The aggregate of Canadian municipal revenues for 1943 is presented in Table XII. It will be observed that real property taxes reached approximately $260 millions for this year, or 76.5 per cent of the total of municipal revenues. Before the financing of World War II had greatly increased some of the important Dominion revenue sources, this tax was the most productive by far of all those levied by the various governments of Canada. In 1939 it amounted to nearly $249 millions ($243,418,000 for the municipalities and $5,504,000 for the provinces).[44]

Municipal Expenditures

The total expenditures of Canadian municipalities for 1943, as shown in Table XIII, were approximately $316 millions. This amount was

Table XIII. CANADIAN MUNICIPAL EXPENDITURES,[1] 1943

Purposes	Amount (000 omitted)	Percentage
General government	$ 92,093	29.2
Streets and highways	33,080	10.5
Education	93,986	29.4
Public welfare	40,449	12.9
Debt charges (excluding retirement)[2]	56,804	18.0
Grand total[3]	$316,412	100.0

[1] From *Comparative Statistics of Public Finance, 1933 to 1943*, Dominion-Provincial Conference on Reconstruction, August, 1945, Section V, pp. 131–72.
[2] Includes interest earnings on sinking funds, etc., $15,833,000, leaving net debt charges of $40,971,000. *Ibid.*, pp. 206–7.
[3] Does not include special payments to provinces by municipalities: Manitoba, $953,000 and Nova Scotia, $438,000—total $1,391,000.

distributed roughly as follows: general government, 29 per cent; streets and highways, 11 per cent; education, 29 per cent; public welfare, 13 per cent; and debt service (excluding retirement), 18 per cent.

[43] Dominion-Provincial Conference on Reconstruction, *Comparative Statistics of Public Finance, 1933 to 1943*, August, 1945, pp. 36–37.

[44] Quebec does not levy a real property tax for provincial purposes. Really this tax does not amount to very much in the other provinces except in the three western provinces—Saskatchewan, Alberta, and British Columbia. In 1939, $5,020,000 were collected in these three provinces from the real property tax, while the other five provinces collected only $483,000.

The expenditures for general government include the costs of administration, financial supervision, police and fire protection, and miscellaneous expenses. As a rule, the expenditures of municipal utilities and other business undertakings which supply necessary community services (water, electricity, transportation, telephone, etc.) are excluded, since they are designed to be self-supporting. In some municipalities, surpluses are earned by these undertakings which go to augment municipal revenues; in others, deficits are incurred which have to be met from ordinary revenues. In some metropolitan areas a type of federation has been set up to achieve better management and greater economy in such undertakings.

During the depression and the war period, the expenditures for streets and highways were often curtailed by the municipalities, sometimes to a point below that necessary to keep the roads in proper repair. New construction was virtually stopped during the war, and also during the depression, except where there were provincial subsidies or unemployment relief works. Urban streets are, as a rule, entirely maintained by the municipalities, while rural roads, particularly the arterial highways, are kept up by the provinces under varying arrangements with the municipalities.

The cost of education is mainly a responsibility of the municipalities (85 per cent of the cost for the country as a whole is said to be borne locally); and it is the largest single item of municipal expenditure. The proportion of school costs to total municipal expenditures is about 29 per cent for the Dominion as a whole, or from 20 to 25 per cent in the Maritime provinces, about 35 per cent in Quebec, 25 to 30 per cent in Ontario, and from 35 to 50 per cent for the western provinces. School budgets were severely curtailed during the depression, especially in the Prairie provinces. This situation stimulated an increased popular demand for larger provincial grants to schools and for improved methods of equalization in meeting school requirements.[45]

The expenditures of municipalities for public welfare, notably for relief, were greatly extended during the depression. Unemployment relief proved much too great for the municipalities, and the Dominion and provincial governments were compelled to assume a major portion of the costs. During the war municipal relief expenditures greatly declined, while health and hospital costs remained about the same as before.

Municipal debt charges, excluding retirement, absorb nearly a fifth of the total expenditures of all municipalities. In 1940 an additional

[45] See pamphlet by Maxwell A. Cameron, *Property Taxation and School Finance in Canada* (1945), pp. 48–50.

$30 millions were required for debt retirement, making a total debt service of around $90 millions for that year. Some Canadian financial authorities have at times expressed concern over the size of these municipal debt carrying charges, particularly in Quebec.[46]

Municipal Indebtedness

The indebtedness of all Canadian municipalities, including school districts, is shown on the accompanying Table XIV. The gross direct debt for the municipal fiscal years ended nearest to December 31, 1943, was $1,285,400,000; the gross indirect or guaranteed debt, $57,000,000; and the total gross debt $1,342,400,000. Sinking funds, amounting to $267,000,000, were deducted from the total gross debt to leave a net debt of $1,075,500,000. These figures are shown in the table distributed among the different provinces, and the per capita net debt is computed for each province in even dollars. The municipalities of Prince Edward Island had the lowest per capita, or $26, while those of Quebec had the highest, or $137. British Columbia municipalities were next to the highest, with $103 per capita. The per capita net debt for all the municipalities of Canada was $91, as compared with a per capita net debt of $110 for all the local governments of the United States for 1942.

Table XIV. CANADIAN MUNICIPAL INDEBTEDNESS,[1] 1943
(In millions of dollars, except per capita)

Provinces	Gross Direct Debt	Gross Indirect Debt	Total Gross Debt	Sinking Funds	Total Net Debt	Per Capita Net Debt
Prince Edward Island ....$	3.3	$ —	$ 3.3	$ .8	$ 2.5	$ 26
Nova Scotia	35.3	.9	36.2	14.4	21.9	36
New Brunswick ...	28.2	.5	28.7	9.8	18.9	41
Quebec	562.9	3.0	565.9	93.5	472.4	137
Ontario	306.3	23.1	329.4	47.7	281.7	72
Manitoba	80.8	15.2	96.0	36.3	59.7	81
Saskatchewan	99.9	—	99.9	24.1	75.8	89
Alberta	57.3	—	57.3	7.4	49.9	63
British Columbia .	111.4	14.3	125.7	33.0	92.7	103
	$1,285.4	$57.0	$1,342.4	$267.0	$1,075.5	$ 91

[1] From *Comparative Statistics of Public Finance, 1933 to 1943*, Dominion-Provincial Conference on Reconstruction, August, 1945, pp. 131–67.

On the basis of less comprehensive figures than those cited above, the gross debt of Canadian municipalities is shown to have doubled between

[46] Thomas Bradshaw, "Municipal Debt," *Maclean's Magazine*, June 1, 1935, p. 13.

the close of World War I and the beginning of the depression in the early 1930's.[47] Since that time the municipal debt has grown very little, retirements having practically offset any new bond issues for relief or other purposes sold during the depression. After Canada entered World War II, municipal borrowings were restricted so as to leave the field free for Dominion bond issues. Twenty-five millions of municipal bond issues in 1939 were reduced to $17 millions in 1940 and to $8 millions in 1941. This temporary curtailment of new bond issues together with generally improved conditions enabled a great many municipalities to reduce their debts, and several defaulting municipalities got back on a paying basis. Of 37 Ontario municipalities at one time in default and subject to provincial supervision, only 12 remained in default at the end of 1941.

Until 1921 municipal defaults were practically unknown in Canada. At that time several western municipalities defaulted on interest and principal payments because of having overextended their capital debt. Ten years later a considerable number of municipalities defaulted, this time in all provinces except the Maritimes. The defaults were so extensive as to affect almost 10 per cent of the total municipal indebtedness. The worst situation in this regard was in Ontario where the defaulting municipalities centered around Toronto and Windsor, the latter city also being involved as a suburb of Detroit. These municipalities experienced abnormal population growth during the boom period of the 1920's and their authorities used poor judgment (indeed, they were said to pursue "an unjustifiable and almost reckless course") in issuing bonds.[48] Similar conditions, though perhaps somewhat less acute, developed among the municipalities adjacent to Montreal, Winnipeg, and Vancouver. Even Montreal itself defaulted as late as 1940 and its financial affairs were taken over by the Quebec municipal commission which, with the advice of outside consultants, formulated a refunding plan in 1944 to cover the city's $220 millions of net debt and $18 millions of bank loans.[49] This general situation, however, was not unique to Canada; there was a high incidence of defaults among the dormitory cities of the United States during the same period.

For many years Canadian municipalities followed the practice of those of Great Britain and issued only sinking fund bonds. Within the past two decades, however, an increasing number of Canadian municipalities

[47] *The Canada Year Book*, 1941, p. 791.

[48] Thomas Bradshaw, *Trends in Municipal Debt in Canada* (1936), p. 22.

[49] Montreal's bonds which were defaulted on between May 15, 1940, and October 15, 1944, amounted to $40.9 millions, with unpaid interest and other debt obligations of $15 millions. This situation was aggravated by the fact that $343.7 millions of the aggregate municipal debt of Quebec, amounting to $472.4 millions in 1943, fell directly on the governmental units of metropolitan Montreal.

have been issuing installment or serial bonds, realizing that they are easier to administer and are generally more suitable for smaller units of government. The term of these bonds is usually measured by the useful life of the improvement which is being financed, but in no case does it exceed thirty years.

It is interesting in this connection to note the singular methods which are at times applied to the handling of municipal sinking funds. Some Canadian municipalities delegate the administration of their sinking funds to trust companies, while others appoint trust companies as depositories with no executive powers. In some instances, these methods are said to operate quite successfully, and to accumulate unusual sinking fund surpluses. The sinking fund reports in such cases show the actuarially accumulated liabilities against the assets of each fund, and the surplus is allowed to pile up from year to year. Sometimes a transfer of this surplus to the general fund of the municipality is permitted. The practice followed by many British and American municipalities of adjusting the annual contributions to, and earnings of, sinking funds to the required actuarial accumulations is not current in Canada. Some Canadian municipalities even adhere to the undesirable practice of including unpaid tax arrears among their sinking fund assets.[50]

Prior to World War I, Great Britain afforded the chief market for Canadian municipal bonds. After this war, the United States became the principal outside market, and continued to take substantial amounts of Canadian municipals until 1931. Since that date the Canadian market has absorbed practically all new issues of municipals.

Effects of Wartime Financing on Municipalities

After nearly three years of actual war conditions the treasurer of Quebec summed up in 1942 the situation for his own city and for other Canadian municipalities. "We all agree," he said, "that no municipal tax can be increased. Some money has to be left in the hands of the citizens to meet the increased cost of living and to subscribe to war issues. Needless to say municipal loans are restricted to the lowest possible figure. . . . Canadian municipalities have borrowed as little as possible since the war started. . . . As a whole we may say that they have postponed their loan budgets until the war is won." [51] Then he observed that the collection of some municipal taxes had become more difficult, owing to the extended tax program and price ceiling of the Dominion govern-

[50] E. T. Sampson, "A Comparison of Financial Reports—Canadian, United States and British," *Municipal Finance*, May, 1941, p. 21.

[51] C. R. Fontaine, "Municipal War Budgets in Canada," *ibid.*, August, 1942, pp. 16–21.

ment. Increased municipal services, he said, were required in those municipalities with rapidly growing populations due to war industries. Even in the more stable communities there were increased social service costs, added expense to guard municipal utilities against sabotage, increased cost of private garbage disposal, and added recreational and institutional expenditures. These increased expenditures were fortunately offset somewhat by a great reduction in unemployment relief costs, savings in salaries where employees joined the military forces or new employees replaced old employees at lower rates of pay, curtailed street pavings and repairs owing to Dominion restrictions on gasoline and oil products, and stabilized rates of exchange for the cities which had floated loans in the United States and Britain. Among the new problems created by the war were the salvage of waste materials for war production not previously attempted by the municipalities, the mechanization of snow-removal equipment to allow traffic to circulate more rapidly in the streets of the larger cities to speed up war industries, and the widespread lack of housing facilities. The Dominion government assisted in the housing situation through a government owned company incorporated for the purpose of building temporary homes for war workers.

There seemed to be a difference of opinion among Canadian finance officers as to whether municipal taxes should be reduced when possible during the war period or retained at current levels and allowed to accumulate surpluses. In the latter case, it was suggested that these surpluses might either be applied to the reduction of city debt or placed in a reserve to take care of postwar unemployment through public works. The Quebec treasurer stated that his city had permitted a surplus to accumulate and had applied it to the extinguishment of the city's debt, retiring more than a million dollars of debt in the two-year period between May 1, 1940, and April 30, 1942. During the war several provinces, notably Ontario and Nova Scotia, authorized the setting up of municipal reserve funds to be used in the construction of public works during the postwar period.

No one can doubt that during the past eighteen or twenty years Canadian municipalities have experienced, as never before, such vast changes in general economic and social conditions as to necessitate radical readjustments in their financial plans and methods. This period has witnessed the peak of a financial boom, an acute and prolonged depression, and a Second World War which has brought about more transformations on the "home front" than any war in history. That Canadian municipalities, on the whole, have been able to meet the stresses and strains of this period, to make the necessary temporary adjustments in their pro-

grams, and to continue their existing services is indicative of their inherent strength. All of this augurs well for the future. With the cooperation and aid of the Dominion and provincial governments, the municipalities will undoubtedly play an important part in meeting the complex problems of postwar Canada.

Chapter XIII

CANADIAN AND AMERICAN COMPARISONS

It is the purpose of this chapter to make some running comparisons between the financial system of Canada (as elaborated in the preceding chapters) and that of the United States. These comparisons deal with the financial methods of meeting the problems of federalism, the federal fiscal structure and process, provincial and state finance, and, lastly, municipal and local finance.

Federalism and Finance

In both Canada and the United States, many of the expensive services of modern government are the constitutional responsibility of the provinces or the states. Some examples of these are highways, education, and social welfare activities. To maintain uniform levels in these services, all provinces and states require tax resources large enough to meet the average costs for the whole country. But only two or three provinces and perhaps half of the states are blest with such ample tax resources. The other provinces and states, unfortunately, are either without an adequate share of the nation's natural resources, or suffer from economic disabilities, or both.

Since about the turn of the century, there have been growing disparities in the levels at which provincial and state services were being maintained. This has been due perhaps more than anything else to the varying capacities of the different provinces and states to raise revenues. Some provinces and states were able to maintain a high level of services at moderate rates of taxation, while others were unable to do so even at high rates of taxation. This has been regarded for some time in both countries as being contrary to the best interests of the people as a whole. Some promising steps have been taken in recent years to meet this situation, particularly in Canada.

How the United States Has Met the Problem

Even before 1910 the United States government recognized this situation and started in a limited way through grants-in-aid, or conditional subsidies, to do something about it. By the end of World War I these grants were being paid to the states for educational purposes, highways, certain health and welfare activities, agricultural extension work, and the protection of forests. They were greatly expanded during the depression period of the 1930's, when employment service, relief and public works aid, assistance grants to aged, blind, and children, social security, and others were added. By the end of this period the grants-in-aid of the federal government amounted annually to about a billion dollars and in addition there were a number of other federal payments to the states. These grants were continued on an increasing scale during World War II, and by 1947 they (together with certain shared costs to the states) were being authorized in the annual sum of around two billion dollars.

The main purpose of federal aid in the United States has been to promote certain desirable services on a nation-wide scale. Since these services are mostly under state jurisdiction, the federal government through grants-in-aid has collaborated with the state governments in the expansion and development of the services. This collaboration, however, has involved more than simply turning over funds to the states. Aside from determining the services to be aided, the federal government has usually required the states to put up funds (sometimes dollar for dollar) and to administer the services according to federal standards, reporting practices, and inspectional controls. No legal compulsion has been put on the states to accept the federal grants. The nonparticipating states, when there are any, simply do not share in the federal funds to which they have presumably contributed taxes.

The United States government has made no major efforts to reallocate existing functions between the federal and state levels. In seeking to improve the performance of functions at the state level, its approach has been entirely through supplying funds and providing work standards, occasionally aided by varying degrees of joint administration. In the financing of governmental functions in general, the field of direct taxation has been very much a free-for-all area as between the federal and the state governments. While general property taxes are now left to the states (principally to the local governments), such major sources as income, corporation, and inheritance taxes are used by both the federal and state governments. Indeed, both levels of government levy taxes on such lucrative sources as gasoline and amusements. Although it is a matter for perennial speculation among tax authorities, no satisfactory basis

has yet been found for the separation of federal and state sources of revenue.

How Canada Has Met the Problem

When faced with the situation of growing disparities in many of the provincial services, Canada also turned to grants-in-aid, or conditional subsidies, around 1912. By the end of World War I, the Dominion government was making grants to the provinces for agricultural education, public employment services, highway construction, technical education, and control of venereal diseases. Then in 1927 grants were made for old age pensions, and in 1930 for unemployment relief. Most of these grants were for definite periods and, except for old age pensions, lapsed during the 1930's.

Canada's experience with grants-in-aid was not too successful. This was probably owing to several things, but perhaps largely to the fact that most of the provinces preferred to have unconditional subsidies. Since the time of federation—indeed, as a condition of federation—the provinces had received unconditional subsidies, partly in compensation for turning over certain taxes to the federal government, and partly for economic disabilities and other reasons. The subsidies had been revised and augmented many times throughout the years, until they had become in effect the financial cornerstone of the federal structure. Their computation was based upon factors which took into account many of the disabilities of the poorer provinces. Hence these subsidies had, in a way, become a substitute for grants-in-aid as practiced in the United States.

Toward the end of the depression the plight of some of the provinces caused the Dominion government to appoint a Royal Commission on Dominion-Provincial Relations. This Commission made a searching inquiry and recommended in its report (published in May, 1940) that the Dominion government should assume greater responsibility for provincial obligations (taking over the provincial debts) and services (financing employable unemployed relief), and that the provinces, in turn, should vacate certain important taxes (income, corporation, and inheritance) to the Dominion government. Provincial maladjustments which still persisted were to be met, according to the Commission's proposals, by "national adjustment grants" based on fiscal need. These were revolutionary recommendations at the time they were made, so much so that three of the provinces refused to discuss them in a Dominion-provincial conference held in 1941. Then the pressure of war financing soon caused the Dominion government to request and obtain from the provinces the exclusive right to levy income and corporation taxes; at the same time, the Dominion government entered the inheritance tax field.

At the close of World War II, the Dominion government realized that it would be impossible to return to the financial arrangements which existed with the provinces prior to the war. It therefore prepared proposals which looked toward the stabilization of provincial revenue sources and the maintenance of provincial services on a desirable, nation-wide level. These proposals reallocated some governmental functions, as between the Dominion and the provinces, and outlined extensive national programs for public investment and social security. Such programs were to be financed through the exclusive use by the Dominion government of the income, corporation, and inheritance tax fields, for which it was to pay a "rental" subsidy to each of the provinces. Control of these tax fields would also assist the Dominion government in carrying out its announced policy for cyclical budgeting.

After several months of discussion between the Dominion and provincial governments without any general agreement, the Dominion government decided to limit its plan temporarily to the fiscal aspects and press for agreements on these with the individual provinces. By the end of 1947, seven provinces (excluding Ontario and Quebec) had signed tax rental agreements for a period of five years. The computation of the tax rental payments embodied the amounts of the unconditional subsidies as of 1947, 50 per cent of the payments under the wartime taxation agreements (for all but two of the agreeing provinces), and a per capita figure adjusted to gross national product, averaged over three years. This computation continued in effect the unconditional subsidies, which the Royal Commission on Dominion-Provincial Relations had so roundly condemned, and did not directly take into account the element of fiscal need which the Commission recommended.

In discussing the Dominion's proposal for the tax rental agreements, the provincial governments naturally raised the question of exclusive sources of revenue for the provinces. On this question the Dominion government refused to commit itself, although subsequently it retired from certain minor tax fields (gasoline, electricity consumption, amusements, and pari-mutuel betting) and left these entirely to the provinces. The arguments for the federal position were succinctly stated by the Dominion Minister of Finance, Douglas C. Abbott, as follows: [1]

> ... neither the government of Canada, nor anyone else, so far as I am aware has ever been able to discover any way in which the total tax field could be divided between the Dominion and provincial governments in such a way as to make it possible for the Dominion Government, on the one hand, and all provincial governments, on the other hand, to obtain from the sector of the field allotted to each the revenues required to carry out their constitutional responsibilities.

[1] *House of Commons Debates*, July 9, 1947, pp. 5422–23.

It would of course be possible to assign such a portion of the tax field exclusively to provincial governments as to enable some provincial governments to meet their requirements, but most methods of allocation would leave other provinces in a weak or impossible position financially. This of course arises from the highly different potential yields of different taxes in various provinces, and is one of the major factors making it so difficult to get all provinces to agree on any single course of action in the fiscal field. To approach the objective of meeting the requirements of the less favoured province as well as of those most favoured would mean assigning to provincial governments so large a portion of the total field as to make it completely impossible for the Dominion to meet its responsibilities.

Some authorities think that the Dominion government's proposals cannot be made to work successfully unless Canada moves further in the direction that her sister Commonwealth of Australia has already gone. Australia, a continent-wide federation of six states patterned after that of the United States, developed serious financial difficulties soon after World War I. Relief was sought in the Financial Agreement of 1927, which created a new relationship between the Commonwealth and the states. The per capita payments to the states, which had been made since the Commonwealth was established, were abolished, the Commonwealth assumed the state debts as of July 1, 1929, and an Australian Loan Council was set up to manage the debt and control future borrowings. This Council has constitutional status and is composed of one representative (usually a minister) from each of the seven governments, the Commonwealth having two votes and a casting vote while the states each have a single vote.[2] The Council determines the amounts which are to be borrowed by each governmental unit, the rates of interest, and the conditions of flotation. Each government is required to submit a program which is reviewed by the Council, thus bringing together capital and other requirements to be financed by loans. A major weakness of the Council is said to be its lack of control over the loans of semigovernmental agencies and local authorities.

In spite of the work of the Loan Council, the depression of the 1930's added to the financial difficulties of the weaker Australian states and made federal aid necessary. Hence a Commonwealth Grants Commission was created in 1933 to report on the applications of claimant states and to advise the Commonwealth government. In seeking special assistance, each state had to prove that its disabilities rendered it unable to discharge its responsibilities. The Commission refused to concede injuries to the states by reason of federal policy, or to compensate them for impoverished resources, but held that each state should receive grants solely on account of fiscal need from whatever cause in order to maintain its

[2] The Commonwealth and two states can therefore outvote the other four states.

services at a minimum standard for the whole country. By 1946, three of the states—South Australia, Western Australia, and Tasmania, were receiving fiscal need grants in varying amounts. While the work of the Commission has been criticized, it is credited with having eased federal tensions and having prevented Western Australia from seceding from the Commonwealth during the 1930's. "Its methods and recommendations," writes Alexander Brady, "were designed to cope with the foremost issue of all federations, the relating of finance to function." [3]

Early in World War II the Commonwealth government became so pressed for additional revenues that it took over the exclusive use of the income tax field for the period of the war and one year thereafter. Each state was compensated for its loss of revenue from this source on the basis of the average earnings from its own income tax during the two previous years. The states unanimously opposed the scheme, but the Supreme Court ruled that it was within the constitutional powers of the Commonwealth. At the end of the war, an agreement was finally reached with the states under which the Commonwealth government continued to have exclusive use of the income tax. The states accepted a total payment of 40 million pounds annually in compensation for their loss from this tax source, and worked out a formula for dividing it among themselves. For the first years this payment was divided among the states approximately in proportion to their previous collections from income tax, but later it was gradually changed to a per capita basis with certain adjustments to take into account the number of school children and residents in sparsely settled areas. The agreement runs indefinitely and is reviewable at the end of seven years on the request of either the Commonwealth or any state.

These measures have brought a large degree of fiscal equality to the Australian states. They have provided all states with a reasonably steady revenue on a relatively uniform basis, giving them more nearly equal revenues per capita. The problem of fiscal need has been attacked by trying to remove the cause, which is unequal revenue sources, rather than by attempting to treat the symptom as manifest in chronic state budgetary deficits.

Federal Fiscal Structure and Process

Under the parliamentary system in Canada, the financial structure is closely tied into the popular legislative body—the House of Commons. The Cabinet (the Executive), which controls the administration and finances of the government, is, at the same time, the dominating committee of the House of Commons. What financing and legislation it requires

[3] Alexander Brady, *Democracy in the Dominions* (1947), p. 158.

in its role as Executive, it can recommend to Commons in its role as leader of that body. And Commons cannot deny the Cabinet's requests, when properly supported by facts and experience; for if it does, it may precipitate either the Cabinet's resignation or its own dissolution. There are, therefore, no undue delays, no prolonged deadlocks, no jockeying for political position, as under the American system of government with its separation of executive and legislative powers.

The Financial Structure

The financial structure under the Dominion Cabinet has a number of features which are in themselves sources of strength. These may be briefly evaluated, as follows:

1. The Treasury Board, a subcommittee of the Cabinet, serves as a sort of balance wheel to the Minister of Finance, makes a preliminary examination of the budgetary proposals before they go to the Cabinet as a whole for its approval, and coordinates all fiscal policies of the administration. No similar coordinating body exists in the United States government, either in the executive branch or in the legislative branch.

2. The Department of Finance, the keystone of the Dominion government's financial administration, has deliberately pursued the design in recent years of largely stripping itself of all activities not directly related to financial control and policy making. It was for this reason that the income tax administration of the Dominion was turned over to the Department of National Revenue, and that the management of the Dominion debt was handed to the Bank of Canada. As a result, the Department of Finance has become a technical staff agency to the Executive on finances, and, as such, is concerned mainly with budgeting, central accounting and reporting, expenditure controls, and matters of general fiscal policy. No comparable department or agency exists in the United States government. Related phases of financial administration and control are vested in many agencies—the Treasury Department, the Bureau of the Budget, the General Accounting Office, and the major departmental accounting offices. Financial planning, in so far as the President alone is concerned, may be said to be fairly well concentrated in the Bureau of the Budget.

3. The Department of National Revenue, with a minister in charge, assesses and collects all the major taxes and revenues of the Dominion government. In the United States government there is no single revenue-raising department, except as the Treasury Department may be so regarded with its bureaus of customs and internal revenue. But the Treasury has other important functions, such as the management of the national debt, the custody and disbursement of public funds, and the

maintenance of a system of general accounting for the government.

4. The Bank of Canada, a government owned institution, regulates credit, controls exchange, acts as fiscal agent for the Dominion government, and manages the Dominion debt. The United States has a privately owned Federal Reserve System and a so-called democratic banking system. Canada's banking system is oligarchical in character and, as experience has shown, far sounder. Aside from government and other savings institutions, it consists of only ten chartered banks which do business through more than three thousand branch banks.

5. The Auditor General, an officer and agent of Parliament, is engaged essentially in postauditing financial records, and in reporting his findings to the House of Commons. He does not keep accounts; he does not exercise any powers relative to the final settlement of accounts, and he does not become involved in the Executive's handling of finances, as does the Comptroller General of the United States (who is ordinarily regarded as an officer of Congress but who is actually independent of both congressional and executive authority). The Auditor General of Canada is not concerned (as is the Comptroller General of the United States) with issuing edicts on the financial practices of the Executive and the administrative agencies; he is simply the auditor and investigator for the House of Commons. As such, his work enables Commons to know if its stipulations with reference to Dominion finances are being properly carried out by the Executive and if the accounts are in order.

The one major weakness of the Dominion's financial structure is the Public Accounts Committee of the House of Commons. This results mainly from the way the committee is constituted. It is large (usually consisting of fifty members) and unwieldy, and it is completely dominated by the political party in power, which undoubtedly accounts for its infrequent meetings and partisan findings. At times, years have intervened between its meetings, although the committee is reconstituted annually. Not in recent years has an important report been made by the committee which was not objected to or attacked by the few opposition party members who happened to be on it.

Neither the general character of the Dominion committee nor its method of procedure resembles those of the British Public Accounts Committee. The chairman of the latter committee always belongs to the Opposition in the British House of Commons. The committee sits regularly, and follows a procedure which is similar to that of a court. The Auditor General and Treasury officials are present, as well as the accounting officers of the department under examination. The Auditor General presents his findings, the departmental officers reply, and Treasury officials offer pertinent comments on either side. When the commit-

tee has finished its scrutiny, it censures the department, if need be, and reports to the House of Commons in very frank and simple terms. In the meantime, the Treasury may require the department to carry out the committee's recommendation, if it is of such a nature; and so the matter is closed. True, the examination before the committee comes long after the money is spent, but it nevertheless has a very salutary effect on any future tendencies to misuse funds.

Needless to say, the Congress of the United States does not have a committee to examine governmental accounts and, under the existing arrangement, it does not regularly receive independent and disinterested audit findings on such accounts. Although this situation has occasioned considerable discussion in recent years and has produced definite proposals for setting up a congressional committee, no action has yet been taken by Congress.

The Financial Process

The starting point of the Dominion's financial process is the budget. The expenditure estimates are prepared by the various departments and agencies, submitted to the Department of Finance where they are assembled, and then reviewed by the Minister of Finance and the Treasury Board. The Minister of Finance is responsible for the revenue estimates. The final budgetary figures are the result of the composite judgment of the Minister of Finance and his associate ministers on the Treasury Board, with the Cabinet as a whole approving all major fiscal policies.

The Dominion budget is submitted to the House of Commons with the full endorsement of the Cabinet. The Minister of Finance usually presents the budget plan on behalf of the Executive in the "budget speech," which he delivers before the Committee of Ways and Means, a committee of the whole House of Commons. The President's "budget message" which is sent to the Congress of the United States is in no way comparable to the budget speech. It is mainly a brief résumé and justification of proposed expenditures, and largely ignores the revenue side of the budget.

The Dominion budget is not as comprehensive as it might be, since several government owned enterprises are budgeted separately, usually on the basis of the calendar year. The Dominion's general budget only takes them into account in the event they require deficits to be financed. The United States budget was also on this basis until recently when all wholly-owned government corporations were put in a section of the budget which is not as yet properly integrated with the budget as a whole.

The House of Commons considers the budget in committee of the whole, with the Opposition being consulted on the main features to be

discussed. Commons, under this procedure, approves the estimates, vote by vote, grants the money required for each vote, and later appropriates it. Commons is definitely limited in the action it may take on the budget; it cannot remake the financial proposals of the Executive, as is so often done by the Congress of the United States in passing on the President's budget.

The Dominion budget, as presented to the House of Commons by the Executive, is definitive and binding on the legislative body and not merely advisory as in the case of the United States budget. This wide difference springs principally from the relation of the Executive to the legislature—in the Dominion the Executive is the controlling committee of the House of Commons, while in the United States the Executive is separate and apart from Congress. The Executive's budget plan cannot be made binding upon Congress without the latter handing over some of its independent authority on financial matters to the President. Only when the President's political party controls both houses of Congress is it likely that his budgetary proposals will be found acceptable to that body. But this situation with respect to party control always obtains under parliamentary government: the Dominion Cabinet is at all times in control of the House of Commons, and whenever it ceases to be in this position it either resigns or dissolves the House. A deadlock therefore cannot exist under the parliamentary arrangement. In the United States, however, the President holds office by the calendar, regardless of congressional control, so that a virtual stalemate may exist between the Executive and Congress for a large part of the President's term.

The Dominion's revenues and receipts are paid into one fund—the Consolidated Revenue Fund—which is expended only by virtue of authorizations made by Parliament. Specials funds—the checkmates of legislative appropriating authority in many American governmental units—are practically nonexistent in the Dominion and provincial governments.

General accounting and financial control for the Dominion government is centralized in the Department of Finance. The Comptroller of the Treasury, an officer of the Executive under the Department of Finance, issues all moneys out of the Consolidated Revenue Fund and controls all expenditures according to parliamentary authorizations. All departmental accounting offices are under his direction and supervision.

Under the Dominion accounting system, developed since 1931, the accounting for revenues and expenditures is greatly expedited. Representatives of the Comptroller stationed in the various departmental accounting offices scattered throughout the Dominion transmit daily statements of receipts and payments to Ottawa where they are promptly

posted to the accounts. Appropriation accounts maintained by the Comptroller show both commitments and payments. In other words, central supervision of departmental expenditures has been firmly established in executive hands, and a dominant place in current financial control has been allotted to the executive subcommittee, the Treasury Board.

The revenue accounts of the Dominion are closed promptly at the end of the fiscal year to prevent any juggling of receipts as between the old and the new fiscal years. The appropriation accounts are closed at the end of one month after the termination of the fiscal year on March 31, thereby giving ample time for all claims of the previous year to be filed. The United States government keeps its appropriation accounts open for a period of two years after the close of the fiscal year to which they relate, thus making for confusion in both accounting and reporting.

The new method of reporting, adopted in 1942, provides a single, consolidated financial report, the Public Accounts, covering the entire range of Dominion finances. The Deputy Minister of Finance, the Comptroller of the Treasury, and the Auditor General are each responsible for contributing parts of this report. The Auditor General not only prepares the last part of the report, but certifies to the Dominion balance sheet and other essential accounting statements as presented by the Executive in the earlier parts of the report. The United States government does not have a comparable financial report.

The auditing sphere, roughly defined by the revised Consolidated Revenue and Audit Act of 1931, has been further clarified and delineated by actual practice since 1940. The Auditor General, a permanent officer of Parliament, is now responsible for postauditing the financial transactions and accounts of the Dominion government and certifying to the accounting statements as produced by the Executive. He is not concerned with the settlement of accounts or with the payment of claims; in other words, he exercises no executive responsibilities which compromise in the least his postauditing functions. This is quite a different sphere from that in which the Comptroller General of the United States operates. While ostensibly an officer of Congress, the Comptroller General is principally concerned with executive functions—the payment of claims, the settlement of accounts, and the prescribing of administrative accounting procedures—and only incidentally with postauditing, except in respect to government corporations under recent legislation.

While the postauditing work of the Dominion government is effectively performed by the Auditor General, the House of Commons has neglected to organize properly its Public Accounts Committee and to schedule the committee's meetings so as to promote an annual and im-

partial examination of the Auditor General's findings and recommendations, which is so essential to full parliamentary control of public finances.

Canadian Suggestions for American Improvements

The foregoing sketch of the Canadian financial structure and process is indicative of several improvements that may be made in the American financial system without abandoning the time-honored separation of executive and legislature for the parliamentary scheme.

1. Canadian practice suggests that the President should have a way to discuss (perhaps informally) his budgetary information and plans with congressional leaders and key members of the financial committees even before his budget is submitted to Congress, and certainly during the legislative session. This is accomplished in Canada through the Treasury Board and the Cabinet.

2. Canadian experience suggests that the President should have a staff agency whose chief concern is fiscal policy and controls, if he is to produce sound financial plans and be able to execute them when approved by Congress. He does not now have a staff agency of this character, as exemplified by the Dominion Department of Finance. His revenue policy for the budget is developed by the Treasury Department, and his expenditure policy by the Bureau of the Budget. In the matter of fiscal controls, he must look to several agencies—the Treasury Department, the General Accounting Office (independent of his authority), the Bureau of the Budget, and the various departmental and agency accounting offices.

3. Canadian practice indicates that the President needs to produce a budget document, including a budget message, which is understandable to congressmen, news reporters, and intelligent citizens. Such a document should give equal weight to the revenue side of the budget, and should present the expenditure side on a program or performance basis, discarding much of the voluminous and meaningless matter now presented.

4. Canadian experience shows the feasibility of a limited number of appropriation bills, perhaps only one or two, and the need for a complete remodeling of the existing appropriation structure, which is now so illogical, voluminous, and complicated as to confuse congressmen and add greatly to the work of the appropriations committees.

5. Canadian budgetary procedure indicates the desirability of the President's submitting his budget to Congress about April 1, instead of early in January, the detailed expenditure estimates having already been sent to the appropriations committees. Such a change would insure greater accuracy in both revenue and expenditure estimates, and would

enable an incoming President to prepare his own budget for presentation to Congress.

6. Canadian methods suggest the advisability of a central accounting system, consolidated and comprehensive accounting reports, restriction on the creation of special funds, and the lapsing of annual appropriations directly after the close of the fiscal year.

7. Canadian auditing practice indicates that the proper sphere of the Comptroller General of the United States should be that of a congressional auditor, and that his powers over administrative accounting and the settlement and adjustment of claims should be returned to the executive branch of the government.

Provincial and State Finance

Canadian provinces have the same general structure of government as the Dominion, that is, an executive (cabinet) responsible to the legislature, which is a unicameral body in all provinces but Quebec. By comparison, the American states have the single executive (governor) who is independent of the legislature—bicameral in all states except for Nebraska's unicameral body. This fundamental difference in the governmental structure between the provinces and the states greatly influences the financial organization and process.

American advisers to the Canadian provinces on fiscal matters seem frequently not to have appreciated this fact. The result is that their recommendations have often done much to confuse rather than clarify the financial process of the provinces. This is particularly true where recommendations have been made and applied with respect to the organization of accounting and auditing functions. Legislative auditors have been made administrative comptrollers and vice versa. Such proposals arise in the main from no clear line having been drawn between the functions of comptrollers and of auditors in the fiscal organization of most American state governments. Those provinces which have adopted this confusion of functions need to turn to the Dominion's financial structure as their model.

Budgetary Methods

The budgetary methods of the Canadian provinces have some advantages over those of the American states, principally in the fact that they are geared to a parliamentary system of government. The budget plans of provincial cabinets are not subject to marked changes by the legislative bodies, as are most of the governors' budgets in the United States. The detailed information carried in provincial budgets is not as well classified as that of most state budgets, but several of the provincial

budgets now segregate current and capital expenditures. Provincial budgets ordinarily do not comprehend government owned enterprises, such as hydroelectric units and telephone systems.

The budget speeches of the provincial treasurers usually contain much better presentations of the financial plans than the budget messages of the state governors. Legislative consideration of the provincial budgets is also much better conducted and more searching than that of state budgets. This fact is, of course, largely due to executive leadership in the legislature under parliamentary practice. The legislative authorization of appropriations in the provinces is greatly simplified by having only one short appropriation bill. Many state legislatures are still called upon to pass scores of appropriation bills at each session, thus tending to confuse legislators and destroy the effects of unified budget plans.

Accounting and Auditing Practices

The provinces, as a rule, lag behind the Dominion government in up-to-date accounting and auditing practices. In some instances, this lag has apparently been due to poor technical advice supplied by American accounting firms who did not fully appreciate the working relationships that exist under parliamentary government. These firms sought to apply methods which were not well grounded even under the American way of operating state governments. The result has been considerable confusion as to the proper place of accounting and auditing in the financial structures of the provinces.

The questionable American practice of setting up special funds for operating services and other purposes has influenced some of the provinces to move in that direction. The provinces lack uniform accounting and reporting methods, though this lack is by no means as pronounced as among the states. Several provinces have followed to their advantage the lead of the states in establishing centralized purchasing. Most provinces have made a beginning at setting up personnel systems, which the states have been so slow in developing.

Municipal and Local Finance

The British North America Act did not prescribe any municipal organization for Canada; rather it left the power to legislate on this subject entirely to the provinces. Thus the door was wide open for experiment, with the result that Canada has tried many of the American devices for local government, sometimes with unhappy results. The commission form of government, for example, was introduced in Canada, later to be abandoned; though it was retained in St. John, N. B., until quite recently. The city manager plan now operates in about thirty of

the smaller municipalities, most of which are located in Quebec. About half a dozen communities have a system of proportional representation, but no Canadian municipality has yet tried the combined plan of council-manager and proportional representation, as in Cincinnati. American influences are also responsible for some of the administrative complexities of Canadian municipalities, such as separately elected school boards; the all-important boards of control in Toronto and some other Ontario cities, which are popularly elected at large in the community; and various independent commissions, mostly for police, libraries, and public parks. But generally speaking, the council-mayor form, with most of the power concentrated in the council, remains the characteristic type of local government in Canada.

Except in one or two Canadian cities, there are few or no indications of "boss rule," as it is known in the United States. Patronage and spoils have never attained the same proportions in the Canadian local political system that they have in the United States. Indeed, they have been noticeably on the wane in Canada during recent years, owing to the general recognition of professional standards in administration. Besides, political parties in Canada never link together municipal, provincial, and Dominion campaigns as they do in the United States, where local, state, and national campaigns are often conducted simultaneously. Municipal, provincial, and Dominion elections are always held on separate dates. Canadian voters are, therefore, never confused by political issues and numerous candidates for different levels of government, and they do not need to be steered through the intricacies of a long ballot by such devices as party emblems or columns. Since only legislators are elected in the Dominion and provincial elections, the number of offices to be filled by the voters in Canada is incomparably fewer than in the United States, where a great many executive and judicial officials are also elected. The Canadian voter has only to choose one person to represent his area in the Dominion or provincial legislative body; from this body emerges the prime minister, who chooses from his fellow legislators the other ministers to head the important administrative departments.

Local Problems of Canada

Fortunately, a large part of the sparsely settled area of Canada has not been organized for local government, as has been the case in the United States. In British Columbia, for example, less than 1 per cent of the total area of the province has been municipally organized, the remaining 99 per cent being under provincial administration. Most of the other provinces, except Nova Scotia and New Brunswick, have large unorganized areas, which are under provincial administration and are operated at a

minimum of cost to the residents. In the United States, only the state of Maine has such an area in its northern forest territory.

In recent years the metropolitan areas of Canada have developed fiscal problems from numerous and overlapping units of government, just as have similar areas in the United States. Special districts, in ever increasing numbers, have generated fiscal difficulties in most of the Canadian provinces. Separate and independent school districts by the thousands, the idea being copied in the main from the United States, have greatly complicated local organization and finance. They now spend a substantial part of the money raised from local taxes, mainly laid on real estate and assessed on capital value (American method) rather than on rental value (British method).

Municipal Fiscal Methods

The smaller municipalities of Canada have not, as a rule, integrated their fiscal functions. Several more or less independent officers still perform these functions. But some of the larger Canadian cities now have very well organized financial structures and integrated processes.

Canadian cities have been rather slow in developing budgetary methods, as compared with those of the United States. The smaller towns and rural municipalities are still backward in financial planning and control, just as are the American town and county governments. Capital budgeting is not yet very far advanced in Canadian municipalities.

Accounting and auditing practices are still faulty in many Canadian municipalities. The Dominion Bureau of Statistics has recently issued a manual setting forth the basic accounting and reporting features for municipalities. With the cooperation of the provincial departments of municipal affairs, it is hoped that the use of this manual will soon bring about a desirable uniformity in accounting and reporting practices among all the municipalities of Canada.

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